

REPORT

OF

THE AUDITOR-GENERAL

ON

**SPECIAL ECONOMIC ZONES
AUTHORITY**

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

*Special Economic Zones Authority
Annual Reports and Financial Statements
For the year ended June 30, 2021*



“Powering Growth”

SPECIAL ECONOMIC ZONE AUTHORITY

**REPORT AND FINANCIAL STATEMENTS
FOR YEAR ENDED 30TH JUNE 2021**

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

*Special Economic Zones Authority
Annual Reports and Financial Statements
For the year ended June 30, 2021*

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1. KEY AUTHORITY INFORMATION AND MANAGEMENT

a) Background information

The Authority is a statutory body established under the Special Economic Zones Act No.16 of 2015, and is domiciled in Kenya.

b) Principal activities

The SEZ Authority was established under section 10 of the Special Economic Zones Act, 2015. The Authority is managed by a Board of Directors consisting of a Chair person and 9 other directors. Section 13 of the Special Economic Zones Act, 2015 mandates the board to provide an enabling environment for the development of all aspects of economic zones and regulation & administration of activities within the special economic zones with due regard to the principles of openness competitiveness and transparency. The Authority begun independently running its operations from June 2019 prior to this it operated within the Ministry of Trade Cooperatives and Industry.

c) Key Management

The Authority's management is under the following organs:

d) Fiduciary Management

The key management personnel who held office during the financial Year ended 30th June 2019 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Ag. Chief Executive Officer	Dr. MESHACK KIMEU
2.	Technical Officer	Mr. LEWELL NJEHIA
3.	Technical Officer	Mr. FRANCIS GITAU
4.	Finance & Accounts Officer	Mr. PETER KARIUKI

e) Fiduciary Oversight Arrangements

The Authority has various fiduciary oversight arrangements comprising of the Board of Directors, Management committees and other stakeholders.

f) Authority Headquarters

UAP Old Mutual Towers
Upper Hill Road
P.O Box 30418 – 00100
14th Floor
Nairobi. Kenya



Kairo Thuo LLB (Hons), CPA (K, CPA(T), ACI

Mr. Kairo Thuo is both a lawyer and accountant by profession and is a partner at Viva Africa Consulting. He attended Strathmore College and the University of Nairobi where he graduated with Bachelor of Law (LLB Hons) and is a Certified Public Accountant - Kenya (CPA-K) and CPA-T holder. He was previously responsible for establishing and running the Tax Transaction Advisory Group at Deloitte and Touché and was the Director of the unit. Mr. Kairo has been recognized by the Kenya Revenue Authority (KRA) in the annual taxpayers' awards for contribution towards tax education and by the International Finance Corporation (IFC) for outstanding tax advice contribution in the Kenya and Uganda Railways concession process

Through his many years of practice, Kairo has developed extensive experience in all areas of taxation in Kenya, Uganda, Rwanda and Tanzania and has also been involved in tax matters involving other countries in Africa. His experience involved all areas of taxation and was also involved in establishment of specialized tax service lines in direct and indirect taxation including customs, international tax and transfer pricing.

He also serves on the Boards of Kenya Power and Lighting Company Limited and NIC Bank as an Independent Non-Executive Director. He joined the Board on 21st October 2016.



Hon. Zainabu Chidzuga

Hon Zainab Kalekye Chidzuga holds a Diploma in Community development. She is a renowned community leader and a counsellor. She is the pioneer Kwale county women representative



Hon. Chidzuga currently serves in several boards including: - Special Economic Zones Authority (SEZA) - Neighbors Initiatives Alliance (NIA) - Coast Water Services Board - Kwale Health Management Board - Kwale Environment board - MYWO life member Hon. Chidzuga also serves as an Oversight committee member of Natural Resources and Environment Committee & Constitutional and legal committee. She joined the board on 14th November 2019.




Mr. Paul Russo

Mr. Russo is the Managing Director National Bank of Kenya (NBK), a subsidiary of KCB Group PLC, following his appointment in October 2019. He also serves as the Group Regional Business Director, KCB Group Plc. He has over 18 years of work experience spanning executive and key roles including group HR Director (KCB Group Plc), Receiver Manager (Chase Bank), Head of HR (Barclays Standard Services – Barclays Africa), Regional HR Head and HR Change lead (Barclays Africa), Head of HR (Barclays Tanzania), Head of Human Capital (PwC), Chief HR officer (K-Rep Bank), HR Manager (Unga Holdings) and Acting Compensation and Benefits Manager (Kenya Breweries). Paul holds an MBA from Strathmore University Business School and a Bachelor of Business Management from Moi University. He also holds a senior executive program for Africa Certificate from Harvard Business School and a






	<p>Higher Diploma in Human Resource Management from the Institute of Human Resources (Kenya). Paul also serves as a director in the Boards of KCB Bank Uganda Limited, KCB Insurance Agency and KCB Capital Limited. He joined the board on 21st October 2016.</p>
 <p>Ms. Susan Wanjohi</p>	<p>Alternate Director</p> <p>Deputy Commissioner KRA, Customs Revenue</p> <p>Susan is the designated alternate to the Commissioner General of the Kenya Revenue Authority.</p>
 <p>Dr. Herbert Musoga</p>	<p>Dr. Herbert Musoga is the Director, Land Use Planning at the National Land Commission responsible for overseeing and monitoring land use planning throughout the country. He has over 30 years of work experience in policymaking and held other key roles including Deputy Director of Physical Planning and Head of the Urban and Metropolitan Planning, Senior Assistant Director of Physical Planning and Head of the Division of Settlement Planning and Data Management, Senior Assistant Director of Physical Planning and Divisional Head for Urban and Metropolitan Planning, Senior Assistant Director of Physical Planning and Divisional Head for Policy, Research and Regional Planning, and Assistant Director of Physical Planning and Section Head responsible for Regional Planning.</p> <p>DR. Herbert holds a PHD in Urban and Regional Planning from the University of Nairobi, Master of Arts in Urban and Regional Planning from University</p>

	<p>of Nairobi and a Bachelor of Arts in Economics and sociology from University of Nairobi.</p> <p>He is a Registered Physical Planner and Corporate member of the Kenya Institute of Planners (KIP) and Architectural Association of Kenya (Town Planning Chapter). He is the designated alternate to the Chairperson of the National Land Commission.</p>
 <p>Martin Gumo</p>	<p>He is the designated alternate to the Principal Secretary to the National Treasury</p>
 <p>Stephen A. Odua</p>	<p>Stephen Odua was re-appointed as an Alternate Board Member to the Special Economic Zones Authority on 20th March 2020. He is a Director of Industries at the State Department of Industrialization heading the Department of Private Sector Development (PSD). The Department of PSD focuses on the improvement of the Business Environment for the private enterprise and entrepreneurship to thrive. This includes coordinating business reforms of the indicators used by the World Bank Ease of Doing Business index; supporting the innovation and technology environment in order to strengthen the innovation ecosystem of Kenya. His duties also include the development of National, Regional and Continental policies on Industrial Development; National Incubation and Technology policy; Special Economic Zones Policy; and the Private Sector Development Strategy. He is also Project</p>

	<p>Coordinator of the Kenya Industry and Entrepreneurship Project (KIEP), a World Bank sponsored Project that seeks to strengthen the innovation and entrepreneurship ecosystem; and SME Linkages and upgrading. From 16th January 2020 to 11th May 2020, Mr. Odua acted as the Ag. CEO of the Export Processing Zones Authority (EPZA). The mandate of the EPZA is to promote and diversify exports; and attract new investments for generation of employment, development of backward and forward linkages, skills and technology transfer.</p> <p>He has been involved in the development of several policy documents including the Special Economic Zones (SEZ) Act, 2015 and SEZ Regulations 2016; Scrap Metals Act, 2015; Sessional Paper No. 9 of 2012 on National Industrialization Policy Framework (2012-2030); EAC Industrialization Policy and Strategy (2012-2032); Private Sector Development Strategy and Development (2006-2010); Kenya Industrial Transformation Program (KITP) amongst others. He was a member of the Ministerial Work Improvement Team, activities that cut across various aspects of the Ministry including human resource management and procurement.</p> <p>Mr. Odua has over 29 years working experience in different capacities and disciplines. He has worked in several State Corporation Boards, as an Alternate Director to the Principal Secretary, namely: Kenya Industrial Research and Development Institute, Kenya Accreditation Services; Special Economic Zones Authority, and Kenya Bureau of Standards. He possesses Corporate Governance skills in Board operations and Management. Has good understanding of the Government operations, policy development requirements, institutional framework development and preparation of legislative frameworks. Stephen has been involved in investment promotion, business and industrial development including collection and analysis of Industrial Statistics; skills development; and offering</p>
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	<p>Business Development Services. Has previously provided lectures at the Kenya Defense College and other local and international fora.</p> <p>He is a holder of a Master's of Science degree in Entrepreneurship and undertaken specialized training on enterprise development in various Countries that include South Korea, Japan, Malaysia, China and Israel. He is a certified International Labour Organization (ILO) trainer on the Grow and Improve Your Business program.</p>
 <p>Dr. Meshack Kimeu, PHD Ag. CEO, SEZA</p>	<p>Dr. Meshack Kimeu is the Acting Chief Executive Officer who is also the ex officio member of the Board following his appointment in June 2019. He has a wealth of over 30 years work experience in facilitating investment and marketing in the country and has held other key roles including General Manager – Operations - Export Processing Zones Authority and Regional Manager Coast – Export Processing Zones Authority. Dr. Meshack was Regional Manager EPZA COAST, where he spearheaded the growth of the EPZ program from 2 in 1998 Zones to 37 Zones in 2016 and employment in 1998 stood at 1,500 and grew to 25,000 in 2016. He also actively engaged Kwale County Council and Samburu South Group Ranch for Donation of Land to EPZA and the Community donated 200 acres for development of an Industrial Park, he also negotiated Green Channel for EPZ imports at KPA for seamless logistics.</p> <p>Dr. Kimeu holds a PHD in Business Administration from Jomo Kenyatta University of Agriculture and Technology, a Master of Business Administration (JKUAT) and a Bachelor of Business Administration (JKUAT).</p> <p>He is also a certified lead auditor with Kenya Bureau of Standards and a trained integrity assurance officer.</p>

3. MANAGEMENT TEAM

Management	Details
	<p>Dr. Meshack Kimeu, PhD in Business Administration Ag. CEO</p>
	<p>Mr. Lewell Njehia B.sc. Mathematics (Statistics & Computer Science) Technical Manager</p>
	<p>Mr. Francis Gitau MA in Economics Ag. Technical Manager</p>
	<p>CPA Peter Kariuki Ag. Finance and Accounts Manager</p>
	<p>Joseph Okoche Bachelors Degree in Procurement and Supply Chain Management, Diploma in Purchasing and Supplies Management Ag. Head of Supply Chain Management</p>

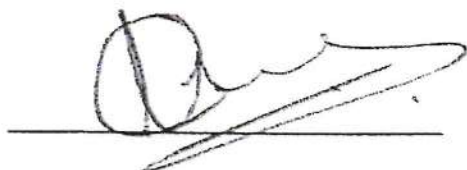
4. CHAIRPERSON'S STATEMENT

The Special Economic Zones Authority establishment under Section 10 of the Special Economic Zones Act, 2015 was a major player in identification, mapping, classification and operation of Special Economic Zones in Kenya. The Authority is managed by a Board of Directors whose functions are to advise the CS on all aspects of designation, approval, establishment, operation and regulation of special economic zones, implement policies and programs of Government with respect to special economic zones, grant licenses to special economic zones, approve or undertake the development, operation or maintenance of appropriate infrastructure for Public special economic zones as and when deemed necessary, perform all administrative business regulations and services in relation to the designated special economic zones, establish and enhance inter agency collaboration among relevant state agencies to ensure compliance with all applicable laws and recommend suspension / cancellation of license's for developers in violation of the Act. Regulate, implement, monitor and supervise all aspects of the special economic zones programme, regulate the access of non - licensed service providers from the customs territory as may be required in order to service individual enterprises

The Authority operates within a dynamic environment which will continue to present new challenges and opportunities. A focused strategic direction is therefore key to enable the SEZA achieve its mandate and its desired goals under such environment

The period 2020-2021 marked a significant moment in the operations of the Authority Development. During the period under review the Authority realized gazettelement of 4 new SEZs. Due Covid 19 Pandemic, the operations of Authority were interrupted as the entire Budgetary allocation was recalled back to Treasury.

The Board of Directors will continue to support the Authority in policy and strategic direction to ensure it achieves its set mandate.



Ms. Carole Karuga
CHAIRPERSON

5. REPORT OF THE CHIEF EXECUTIVE OFFICER

On behalf of the management and staff of The Special Economic Zones Authority (SEZA), I am delighted to present the Third annual report and an overview of the Authority's activities for the Year ended 30th June, 2021. The financial performance for the Year under review was mainly impacted by the Government, since the Authority depend fully on the Government of Kenya Grants for its operations.

Since the establishments of the Authority vide the Special Economic Zones Act, 2015, there has been remarkable achievement operationalization of the SEZ Authority. In the financial Year 2018-2019 the Authority opened an account with Kenya Commercial Bank where its allocation was channelled on quarterly basis. In the Financial under review, The Authority opened two Accounts with National Bank of Kenya. One Dollar Account and Kshs Account.

During the Year under review, the Authority received KES. 20,370,000.00 and Ksh 147,754,289.00 for operations and Development of Dongo Kundu and Naivasha SEZ respectively from The National Treasury and collected revenues of Kshs 7,194,562.00. The expenditure for the Year 2020/2021 was Ksh 62,294,749.00

During the Year under review the following were developed and approved; -

- The Second set of Special Economic Zones Regulations;
- Development of the HR Policies and procedure manual
- Development of career progression guidelines instruments

The Authority intends to develop its financial and Procurement policy manuals in the forthcoming period.

Term of Board members

The term of the Board is outlined under provision of Special Economic Zones Act, 2015 and the amended provisions of PFM Act, 2012 section 193(4). Members except ex- officio members shall be appointed by the Cabinet Secretary, and serve for a term of not more than three (3) Year's renewable once for a further term of three Years. In doing so, the appointment is staggered to ensure succession planning.

I would like to express my special thanks to the government for the opportunity to serve Kenyans, the Board of Directors for selfless contribution and guidance, and the Authority's staff for working round the clock to deliver on the Mandate of SEZA. The financial year was successful.



Dr. Meshack Kimeu, PhD

Ag. CHIEF EXECUTIVE OFFICER

6. CORPORATE GOVERNMENT STATEMENT

Corporate governance is the process systems and structure used to direct and manage the affairs of the Board of Directors and the SEZ Authority as a whole.

The Board of Directors is a supreme body responsible for policy formulation, direction and charting out the way forward for effective management of the Authority. The Board of Directors attach great importance to the need to conduct the operations of the Authority with integrity, professionalism and in accordance with generally accepted international corporate standards.

The Board is responsible for the management of affairs of the Authority including:

- i) Advise the Cabinet Secretary in matters of SEZA funding and related policy issues,
- ii) Approve budget and Monitor expenditure,
- iii) Monitor and implement various Government policies and
- iv) Ensure prudent use of public funds.

The Board has set up four key Board committees to help in the implementation of its policy guidelines and strategic plan as follows

- i) Audit Committee,
- ii) Technical Committee,
- iii) Finance and Strategy committee and
- iv) Human Resources Committee.

These Committees meet when there is need and are chaired by selected Chairmen who are Board Members. The Committees report their findings to the Board for further deliberations.

The Board meets regularly in compliance with provisions of Mwongozo. During the period under Audit, SEZA held 7 meetings in accordance with the Board calendar

7. MANAGEMENT DISCUSSION AND ANALYSIS

Strategic Plan, Annual Work Plan and Budget

The Ag. Head of the Authority prepares the strategic plan, annual work plans and budget in consultation with Finance and General Committee of the Board, for consideration and approval by the Board. The Board submits its budget to the National Treasury for consideration in the National Budget. Quarterly financial statements are submitted to the Directorate of Accounting Services and Quality Assurance in the National Treasury. The annual work plan is prepared from the strategic plan in order to address the strategic objectives identified.

Financial Sustainability

The allocations during the Year under review were insufficient to allow the Authority to undertake its core activities which include allowing recruitment for substantive members of staff. Any further reductions in the allocation would mean the Authority would need to curtail its core activities. The SEZ Authority is conscious of expenditure control and complied with its budgetary allocation.

Social Responsibility

The Authority did not engage in any social responsibility projects in the Year.

Authority's compliance with statutory requirements

The Authority has complied with its establishing Act, that is, the SEZA Act, 2015. It has also complied with other legal requirements such as submission of statutory deductions to KRA and its internal policies and procedures. There were instances of noncompliance that would lead to financial loss.

8. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2021, which show the state of the *entity's* affairs.

i) Principal activities

The principal activities of the entity are to implement policies and programs of Government with respect to special economic zones, grant licenses to special economic zones, approve or undertake the development, operation or maintenance of appropriate infrastructure for Public special economic zones as and when deemed necessary, perform all administrative business regulations and services in relation to the designated special economic zones, establish and enhance inter agency collaboration among relevant state agencies to ensure compliance with all applicable laws and recommend suspension / cancellation of license's for developers in violation of the Act. Regulate, implement, monitor and supervise all aspects of the special economic zones programme, regulate the access of non - licensed service providers from the customs territory as may be required in order to service individual enterprises

ii) Results

The results of the entity for the year ended June 30, 2021, are set out on page 2 to 32.

iii) Directors

The members of the Board of Directors who served during the year are shown on page vi, vii, viii, ix, x and xii. During the year 2021 Director's term expired with effect from 18th April 2021 and her term has not been extended since.

iv) Surplus remission

In accordance with Regulation 219 (2) of the Public Financial Management (National Government) Regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. The entity did not make any surplus during the year (FY 2020 Ksh Nil) and hence no remittance to the Consolidated Fund.

v) Auditors

The Auditor General is responsible for the statutory audit of the entity in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board.



Dr. Meshack Kimeu, PhD

Ag. CHIEF EXECUTIVE OFFICER

Date: 23rd September 2021

9. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and The Authority is a statutory body established under the Special Economic Zones Act No.16 of 2015, and is domiciled in Kenya.

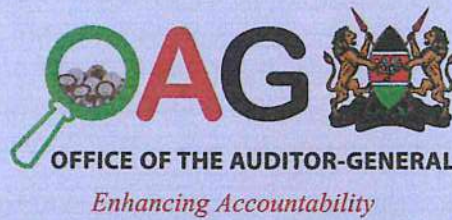
require the Directors to prepare financial statements in respect of that Special Economic Zones Authority, which give a true and fair view of the state of affairs of the Special Economic Zones Authority at the end of the financial year/period and the operating results of the entity for that year/period. The Directors are also required to ensure that the Special Economic Zones Authority keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity. The Directors are also responsible for safeguarding the assets of the Special Economic Zones Authority.

The Directors are responsible for the preparation and presentation of the Special Economic Zones Authority financial statements, which give a true and fair view of the state of affairs of the Special Economic Zones Authority 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 Special Economic Zones Authority (v) Selecting and applying appropriate accounting policies; and (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Special Economic Zones Authority 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 State Corporations Act The Authority is a statutory body established under the Special Economic Zones Act No.16 of 2015, and is domiciled in Kenya. The Directors are of the opinion that the Special Economic Zones Authority financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2021, and of the Special Economic Zones Authority financial position as at that date.

REPUBLIC OF KENYA

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

REPORT OF THE AUDITOR-GENERAL ON SPECIAL ECONOMIC ZONES AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2021

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 Special Economic Zone Authority set out on pages 2 to 31, which comprise of the statement of financial position as at 30 June, 2021, and statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual

amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the 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 Special Economic Zones Authority as at 30 June, 2021 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Special Economic Zones Authority Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracy in Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.53,694,878. However, review of the Authority's assets register revealed that the Authority owns ICT/Computer equipment worth Kshs.935,000 and office furniture and equipment of undetermined value have not been disclosed in the financial statements. Although Management have indicated to have made the corrections, journal entries were not provided for audit review.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.53,694,878 could not be confirmed.

2. Inaccuracies in Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.65,810,302. Review of the supporting bank reconciliation statements indicated that there were debits in the bank statements totalling Kshs.32,723,672 which were not reflected as payments in the cash book, some dating back to the financial year 2018/2019, receipts in bank statements not in the cash book totalling Kshs.442,260 and cheques amounting to Kshs.4,695,129 were outstanding for over six (6) months. It was not clear why the cheques have not been reversed in the cashbook.

Further, a Dollar Account with a balance of Kshs.2,454,152 as at 30 June, 2021 was not disclosed in the financial statements, resulting to understatement of the cash and cash equivalents balance by the same amount.

In the circumstances, the validity, accuracy and completeness in the cash and cash equivalents balance of Kshs.65,810,302 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Special Economic Zones Authority 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

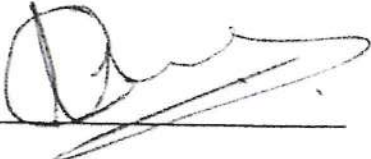
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The Directors further confirms the completeness of the accounting records maintained for the *entity*, which have been relied upon in the preparation of the *Special Economic Zones Authority* financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Special Economic Zones Authority financial statements were approved by the Board on 30th SEPT 21 and signed on its behalf by:



Ms. Carole Karuga
CHAIRPERSON

Chairperson of the Board



Dr. Meshack Kimeu, PhD
Ag. CHIEF EXECUTIVE OFFICER

Accounting Officer

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

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

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, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Lack of Internal Audit Function

The Authority did not have an Internal Audit Function to review and appraise its existing internal controls with a view to enhancing the Authority's operational efficiency, governance and compliance as provided under Section 73(4) and (5) of the Public Finance Management Act, 2012. As a result, the Authority's internal control environment is weak and the situation may hamper efficient and effective execution of Authority's activities.

In the circumstances, existence of effective monitoring measures on internal controls could not be confirmed.

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 the Board of Directors

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 Authority'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 the intention to terminate the Authority or to cease operations.

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

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

The Board of Directors is responsible for overseeing the Authority's financial reporting process, reviewing the effectiveness of how the 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 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 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 Authority'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 Authority 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 Authority 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 Gatirunga, CBS
AUDITOR-GENERAL

Nairobi

22 July, 2022

**11. STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2021**

	Notes	2020-2021	2019-2020
		Kshs	Kshs
Revenue from non-exchange transactions			
Transfers from other governments	5	26,618,274	28,878,107
Total Revenue from non-exchange transactions		26,618,274	28,878,107
Revenue from exchange transactions			
Other Income	6	7,194,562	3,028,389
Deferred Income	15	53,694,878	0
Total revenue		87,507,714	31,906,496
Expenses			
Staff Allowance	7	1,792,070	-
General Expenses	8	24,910,172	20,581,349
Remuneration of Board of Directors	9	4,226,736	4,415,088
Repairs and Maintenance	10	2,118,460	566,918
Consultancy	11	27,514,111	5,273,100
Feasibility	12	1,733,200	
Total expenses		62,294,749	30,836,455
Surplus for the year		25,212,965	1,070,041

The notes set out on pages 7 to 30 form an integral part of these Financial Statements.

The Financial Statements set out on pages 2 to 6 were signed on behalf of the Board of Directors by:




Accounting Officer
Name: Meshack Kimeu

Date 30/9/21



Head of Finance
Name Peter Kariuki
ICPAK Member Number: 7780

Date 30/9/21



Chairman of the Board
Name: Carole Karuga

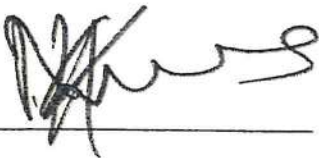
Date 30/9/21

**12. STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021**

	Notes	2020-2021 Kshs	2019-2020 Kshs
Non-Current Assets			
Work-in-Progress	13	53,694,878	0
Current assets			
Cash and cash equivalents	14	65,810,302	5,809,082
Staff Imprest		0	671,996
Total assets		119,505,180	6,481,078
Net Assets			
Liabilities			
Deferred Income	15	87,811,137	0
Net Assets			
Accumulated surplus		31,694,043	6,481,078
Total net assets		119,505,180	6,481,078
Total Net Assets and Liabilities			

The notes set out on pages 7 to 30 form an integral part of these Financial Statements.

The Financial Statements set out on pages 2 to 6 were signed on behalf of the Board of Directors by:



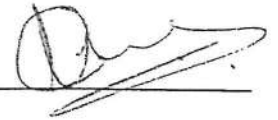
Accounting Officer
Name: Meshack Kimeu

Date 30/9/21



Head of Finance
Name Peter Kariuki
ICPAK Member Number: 7730

Date 30/9/21



Chairman of the Board
Name: Carole Karuga

Date 30/9/21

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

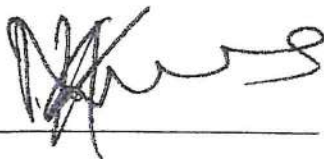
	Accumulated Surplus	Capital / Development Grant	Total
At July 1, 2020			
Balance (deficit) as at 1 July	6,481,078	-	6,481,078
Surplus/(deficit) for the period	25,212,965	-	25,212,965
Balance as at June 30, 2021	31,694,043	-	31,694,043

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

		2020-2021	2019-020 (restated)
	NOTES	Kshs	Kshs
Cash flows from operating activities			
Receipts			
Transfer from Ministry	5	26,618,274	28,878,107
Receipts from other operating activities	6	7,194,562	3,028,389
Total Receipts		33,812,836	31,906,496
Payments			
Staff Allowance	7	1,792,070	-
General expenses	8	24,910,172	20,581,349
Remuneration of Board	9	4,226,736	4,415,088
Repairs and Maintenance	10	2,118,460	566,918
Consultancy	11	27,514,111	5,273,100
Feasibility	12	1,733,200	-
Total Payments		62,294,749	30,836,455
Net cash flows from operating activities		(28,481,913)	1,070,041
Cash flow from investing activities		-	-
Cash used on Non-Current Assets (WIP)	13	(53,694,878)	-
Development Grants Received		141,506,015	-
Net cash flows from investing activities		87,811,137	-
Net increase/(decrease) in current Assets			
Decrease/ (Increase) in receivables- Staff Imprest		671,996	(671,996)
Net increase/(decrease) in cash and cash equivalents		60,001,220	398,C
Cash and cash equivalents at 1 JULY		5,809,082	5,411,037
Cash and cash equivalents at 30 JUNE	14	65,810,302	5,809,082

The Financial Statements set out on pages 2 to 6 were signed on behalf of the Board of Directors by:

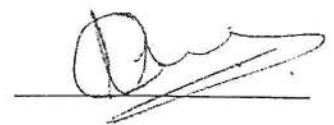


Accounting Officer
Name: Meshack Kimeu

Date 30/9/21



Head of Finance
Name Peter Kariuki
ICPAK Member Number: 7730
Date 30/9/21



Chairman of the Board
Name: Carole Karuga

Date 30/9/21

15. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS AS AT 30TH JUNE, 2021

	Original Budget	Adjustments	Final Budget	Actual on Comparable basis	Performance Difference	Variance %
	Shs	Shs	Shs	Shs	Shs	Shs
Revenue						
Government grants and subsidies	20,370,000	-	20,370,000	26,618,274	6,248,274	30%
Deferred Income	53,694,878	-	53,694,878	53,694,878		
Other Income	2,000,000	-	2,000,000	7,194,562	5,194,562	72%
Total income	76,064,878		76,064,878	87,507,714		
Expenses						
Payments	62,892,458	-	62,892,458	62,892,458	-	-
Total expenditure	62,294,749		62,294,749	62,294,749	-	-
Surplus for the period				25,212,965		

Notes to the Statement of Comparison of Budget and Actual Amount

a. Revenue

- Government Grants and Subsidies: There was a reallocation of Kshs. 6,248,274 from Development funds to Recurrent during the year. This was necessitated by increased activities during the year.
- Other Income: The Authority Collected more revenue from License fees from Special Economic Zones than expected during the year.

16. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Special Economic Zones authority is established by and derives its authority and accountability from Special Economic Zones Act, 2015. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is to provide for the establishment of Special Economic Zones in Kenya.

2. Statement of Compliance and Basis of Preparation

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. Adoption of New and Revised Standards

- i. New and amended standards and interpretations in issue effective in the year ended 30 June 2021.*

Standard	Impact
Other Improvements to IPSAS	<p>Applicable: 1st January 2021:</p> <p>a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks.</p> <p>b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment. Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved.</p> <p>c) IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets. Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets.</p> <p>d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs). Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard.</p>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021.

Standard	Effective date and impact:
<p>IPSAS 41: Financial Instruments</p>	<p>Applicable: 1st January 2023:</p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <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.
<p>IPSAS 42: Social Benefits</p>	<p>Applicable: 1st January 2023</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:</p>

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Standard	Effective date and impact:
	<p>(a) The nature of such social benefits provided by the entity;</p> <p>(b) The key features of the operation of those social benefit schemes; and</p> <p>(c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.</p>
<p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p>	<p>Applicable: 1st January 2023:</p> <p>a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</p> <p>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</p> <p>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</p> <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p>

iii. Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2020/2021.

4. Summary of Significant Accounting Policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Fees, taxes and fines

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

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

ii) Revenue from exchange transactions

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.

b) Budget information

The original budget for FY 2020-2021 was approved by the Board of Directors on 30/09/2020. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

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In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section xxx of these financial statements.

c) Taxes

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. 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (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. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

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:

- i) The debtors or an entity of debtors are experiencing significant financial difficulty.
- ii) Default or delinquency in interest or principal payments
- iii) The probability that debtors will enter bankruptcy or other financial reorganization.
- iv) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

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. 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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
Summary of Significant Accounting Policies (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies (Continued)

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.

5. Significant Judgments and Sources of Estimation Uncertainty

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Significant Judgments and Sources of Estimation Uncertainty (Continued)

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.

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 (Continued)

5. TRANSFERS FROM MINISTRIES, DEPARTMENTS AND AGENCIES

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income (KShs)	Total grant income during the year	2020-2021	2019-2020
			KShs	KShs
State department for Industrialization	26,618,274	26,618,274	26,618,274	28,878,107
Total	26,618,274	26,618,274	26,618,274	28,878,107

6. OTHER INCOME

Description	2020-2021	2019-2020
	KShs	KShs
Income from License Fees	6,488,962	2,982,389
Income from sale of tenders	705,600	46,000
Total other income	7,194,562	3,028,389

7. STAFF ALLOWANCE

Description	2020-2021	2019-2020
	KShs	KShs
Staff Allowance	1,792,070	
Total Staff Allowance	1,792,070	

8. GENERAL EXPENSES

	2020-2021	2019-2020
	KShs	KShs
General Office Supplies	3,696,935	1,182,787
Fuels and Lubricants	760,000	
Bank Charges	21,651	10,242
Hospitality Service and Supplies	935,342	768,808
Training	591,288	14,560
Travelling and Subsistence Allowance	15,318,965	13,826,701
Investments Forums	2,024,105	
Communication, Supplies & Services	1,561,888	
Contracted Professional Services	0	4,778,248
Total General Expenses	24,910,172	20,581,349

9. BOARD EXPENSES

Description	2020-2021	2019-2020
	KShs	KShs
Chairperson Honoraria	1,280,000	960,000
Sitting Allowance, mileage and Chairperson airtime		2,185,656
Other Allowances (Board)	2,946,736	1,269,432
Total Board Expenses	4,226,736	4,415,088

10. REPAIRS AND MAINTENANCE

Description	2020-2021	2019-2020
	KShs	KShs
Repairs and Maintenance	2,118,460	566,918
Total	2,118,460	566,918

11. CONSULTANCY

Description	2020-2021	2019-2020
	KShs	KShs
Consultancy	27,514,111	5,273,100
Total Consultancy service	27,514,111	5,273,100

12. FEASIBILITY

Description	2020-2021	2019-2020
	KShs	KShs
Feasibility	1,733,200	-
Total	1,733,200	-

13. INFRASTRUCTURE (WORK IN PROGRESS)

Description	2020-2021	2019-2020
	KShs	KShs
Infrastructure	53,694,878	
Total	53,694,878	

14. CASH AND CASH EQUIVALENTS

Description	2020-2021	2019-2020
	KShs	KShs
Current account	65,810,302	5,809,082
Total cash and cash equivalents	65,810,302	5,809,082

14(a) Detailed Analysis of the Cash and Cash Equivalents

Financial institution	Account number	2020-2021	2019-2020
		KShs	KShs
a) Current account			
Kenya Commercial bank	1223099725	4,012,020	5,809,082
National Bank of Kenya (Dollar)	02071231597300		
National Bank of Kenya (Kshs)	01071231597300	61,798,282	
cash in hand			
Sub- total		65,810,302	5,809,082
Grand total		65,810,302	5,809,082

15. Deferred Income

Description	2020-2021	2019-2020
	KShs	KShs
National government	87,811,137	0
International funders		0
Public contributions and donations		0
Total deferred income	87,811,137	0

The deferred income movement is as follows:

	National government	International funders	Public contributions and donations	Total
Balance brought forward	-	-	-	-
Additions	141,506,015	-	-	141,506,015
Transfers to Capital fund				
Transfers to income statement	53,694,878	-	-	53,694,878
Other transfers				
Balance carried forward	87,811,137	-	-	87,811,137

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. Cash Generated from Operations

	2020-2021	2019-2020
	KShs	KShs
Surplus for the year	25,212,965	1,070,041
Adjusted for:		
Decrease (Increase) in receivables	671,996	(671,996)
Cash used on Capital Expenditure	(53,694,878)	0
Increase in deferred income	87,811,137	0
Net cash flow from operating activities	60,001,220	398,045

17. Related Party Disclosures

Nature of related party relationships

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

Government of Kenya

The Government of Kenya is the principal shareholder of the *entity*, holding 100% of the *entity's* equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the *entity*, both domestic and external.

Other related parties include:

- i) The Parent Ministry;
- ii) County Governments
- iii) Other SCs and SAGAs
- iv) Key management;
- v) Board of directors;

The following transactions were carried out with related parties

	2020-2021	2019-2020
	Kshs	Kshs
a) Grants /Transfers from the Government		
Recurrent Grants from National Govt	26,618,274	28,878,107
Development Grants from National Government	141,506,015	-
b) Key management compensation		
Directors' emoluments	4,226,736	4,415,088
Compensation to key management	1,792,070	-
Total	174,143,095	33,293,195

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. Events after the Reporting Period

There were no material adjusting and non- adjusting events after the reporting period.

19. Ultimate And Holding Entity

The entity is a State Corporation under the State Department for Industrialization. Its ultimate parent is the Government of Kenya.

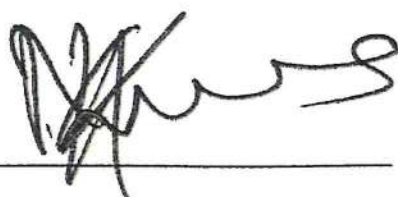
20. Currency

The financial statements are presented in Kenya Shillings (Kshs).

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	Trial Balance and the General Ledger	The Authority is in the process of acquiring an Enterprise Resource Management System which integrate all the financial records	Not Resolved	30 June 2022
2.	Unsupported Cash and Cash Equivalents Balance	The Bank Reconciliation Statements were Prepared and availed for Audit Verification	Resolved	
3.	Irregular Expenditure	The expenditure was incurred in the performance of Authority's functions.	Resolved	



Dr. Meshack Kimeu, PhD
Ag. CHIEF EXECUTIVE OFFICER

Date: 23rd September 2021

APPENDIX II: INTER-ENTITY TRANSFERS

ENTITY NAME:				
Break down of Transfers from the State Department of Industrialization				
FY 2020/2021				
a.	Recurrent Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		10/08/2020	1,697,500.00	2020-2021
		24/08/2020	1,697,500.00	2020-2021
		22-09-2020	1,697,500.00	2020-2021
		21-10-2020	5,092,500.00	2020-2021
		02-02-2021	5,092,500.00	2020-2021
		04-05-2021	5,092,500.00	2020-2021
		Total	20,370,000.00	
b.	Development Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		28/08/2020	88,605,373.00	2020-2021
		28/08/2020	59,148,916.00	2020-2021
		Total	147,754,289.00	
c.	Direct Payments			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		Total	0.00	
d.	Donor Receipts			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		Total	0.00	

The above amounts have been communicated to and reconciled with the parent Ministry



Finance Manager:

Special Economic Zones Authority



Head of Accounting Unit:

State Dept of Industrialization

