

REPUBLIC OF KENYA



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on 15/10/14
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KENYA NATIONAL AUDIT OFFICE



REPORT
OF
THE AUDITOR-GENERAL
ON
THE FINANCIAL STATEMENTS OF
NATIONAL INDUSTRIAL TRAINING
AUTHORITY
FOR THE YEAR ENDED
30 JUNE 2013

REPUBLIC OF KENYA

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KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON NATIONAL INDUSTRIAL TRAINING AUTHORITY FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of National Industrial Training Authority set out on pages 12 to 28, which comprise the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in reserves and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. 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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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 13 of the Public Audit Act 2003.

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 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. 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 audit 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 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 Authority'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. Investments

As previously reported, the statement of financial position as at 30 June 2013 includes an amount of Kshs.7,017,240 relating to investments in shares held in the Consolidated Bank of Kenya Ltd which were acquired in 1993 as explained under Note 10 to the financial statements. However, and as reported in 2011/2012 and earlier, no dividends have been recorded or received from the investments since they were acquired in 1993. Further, and as noted in the previous year, no provision has been made in the financial statements for the diminution in value of the investments.

2. Deposits

As previously reported, the statement of financial position reflects deposits balance of Kshs.129,466,000 held with collapsed banks, being deposits placed in eleven financial institutions which have since been placed under liquidation. Recoverability of these deposits however is doubtful yet no provision has been made in the financial statements regarding this amount. In the circumstances, it has not been possible to confirm the short term deposits balance of Kshs.129,466,000 as at 30 June 2013.

3. Cash and Cash Equivalents

(i) National Bank of Kenya

As reported in the previous year, the cash and cash equivalents balance of Kshs.325,743,000 includes a balance of Kshs.58,474,710 in respect of National Bank of Kenya whereby the balances shown in certificates of bank balance were used instead of reconciled cash book balance. In addition, included in the bank reconciliation statements are unrepresented stale cheques, receipts in bank statement not recorded in cash book, payments in bank statement not yet recorded in cash book and receipts in cash book not yet recorded in the bank statement of

Kshs.54,062,734, Kshs.7,700,356, Kshs.11,289,551 and Kshs.252,375 respectively, which had been outstanding for more than three years.

(ii) Kenya Commercial Bank

Further, the cash and cash equivalents balance of Kshs.325,743,000 as at 30 June 2013 includes Kshs.193,007,608 in respect of Kenya Commercial Bank where the management used certificate of bank balance instead reconciled cash book balance, as no reconciliations were done on this account.

(iii) Standard Chartered Bank

Similarly, included in cash and cash equivalent balance of Kshs.325,743,000 is Kshs.227,403 relating to a Standard Chartered Bank Account. The Authority did not maintain a cash book for the bank account and details as to what the account was opened for were scanty.

In the circumstances, it has not been possible to confirm that the cash and cash equivalents balance of Kshs.325,743,000 as at 30 June 2013 is fairly stated.

4. Property, Plant and Equipment

The statement of financial position as at 30 June, 2013 reflects property, plant and equipment balance of Kshs.38,845,000 which does not include various parcels of land and buildings of undetermined values inherited from the parent Ministry when the Authority became an autonomous entity.

Further, the Authority did not maintain full records of assets especially for land and buildings in Nairobi Headquarters, Textile Training Centre (TTC) in Kitengela and in other regional centres at Kisumu, Nakuru and Mombasa. Although a disclosure has been made in the financial statements, there were no records to indicate that the land and buildings are owned by the Authority since the delinking process from the Ministry of Labour had not been completed as at 30 June 2013. In addition, the Authority has several obsolete/unserviceable equipment and other assets of undetermined value in most of its centres which have not been disclosed in the financial statements.

Consequently, it has not been possible to confirm that property, plant and equipment balance of Kshs.38,845,000 is fairly stated as at 30 June 2013.

5. Board Expenses

The statement of comprehensive income for the year ended 30 June, 2013 reflects Board expenses figure of Kshs.16,662,000. The figure includes an amount totalling to Kshs.2,175,770 paid to the Chairman of the Board, representing approximately 13% of the total board expenses. The schedule of Board meetings provided for audit

scrutiny revealed that the Chairman attended the meetings very frequently and almost on weekly basis. However, no details were made available for audit verification and confirmation of the invitations to the meetings and nature of activities he was undertaking to warrant such payments during the year under review.

In the circumstances, it has not been possible to confirm the propriety of the Board expenses figure of Kshs.2,175,770.

Adverse Opinion

In my opinion, because of significance of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly the financial position of the Authority as at 30 June 2013, and of its financial performance and cash flows for the year then ended in accordance with International Financial

Reporting Standards and do not comply with Industrial Training Act, Cap 237 of the Laws of Kenya as amended by Act, No.34 of 2011.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

8 August 2014

Annual Report and Accounts

2012 - 2013

NATIONAL INDUSTRIAL TRAINING AUTHORITY

Annual Report and Accounts

2012- 2013

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CORPORATE INFORMATION

Principal Place of Business & registered Office

Commercial Street, Industrial Area

P.O. Box 74494 – 00200, NAIROBI

KENYA

Email: info@nita.go.ke

Website: www.nita.go.ke

Principal Bankers

Kenya Commercial Bank, Industrial Area Branch,

P.O. Box 18031 – 00500, NAIROBI

KENYA

National Bank of Kenya, Harambee Avenue
Branch

P.O. BOX 41862- 00100

Nairobi

KENYA

Auditor

Auditor- General

12th Floor, Anniversary Towers

University Way

Secretary to the Board

F.M Gitaka

Commercial Street, Industrial Area

P.O. Box 74494 – 00200, NAIROBI

KENYA

BOARD OF DIRECTORS

| | |
|----------------------------|---|
| Prof. Thomas Ekamais Akuja | Chairman |
| Ernest Nadome | Vice Chairman |
| Jacqueline Mugo, OGW | Member |
| Rajabu Mwondi, MBS | Member |
| Hirji Shah, OGW | Member |
| Eng. Aram Mbui | Member |
| Tom Khakame | Member |
| George M. Muchai, MBS | Member |
| Alfred Mogere | Member |
| Mutinda Mwaa | Member |
| Chris S. Nambanga | Member |
| Elizabeth Kimenyi | Ag. Director General/Secretary(Retired: 30-10-2012) |
| Patrick Omutia | Director General/Secretary (Retired:26-06-2013) |
| F.M. Gitaka | Ag. Director General (Appointed:27-06-2013) |

DIRECTORS' REPORT

The Directors submit this report and the audited accounts for the year ended 30 June 2013 which show the state of the Authority's affairs with respect to the Training levy fund.

ESTABLISHMENT

The Authority is established in Kenya under the Industrial Training (Amendment Act No. 34 of 2011). It is a Semi autonomous government agency under the Ministry of Labour ,Social Security and Services.

PRINCIPAL ACTIVITY

The Authority provides, facilitates, promotes, regulates and coordinates integrated industrial training for a globally competitive human resource.

RESULTS

The results for the year are summarized below:

| | 2013 | 2012 |
|----------------------|----------------|----------------|
| | KSh'000 | KSh'000 |
| Surplus for the Year | <u>134,368</u> | <u>107,640</u> |

FINANCIAL STATEMENTS

As at the date of this report, the Directors were not aware of any circumstances which would have rendered the values attributed to the assets in the financial statements misleading.

DIRECTORS

The Directors who served during the year and to the date of this report were as listed here below.

| | | |
|----------------------------|--------------------------------|--|
| Prof. Thomas Ekamais Akuja | Chairman | Appointed on 14 May 2012 |
| Ernest Nadome | Vice Chairman | Effective on 11 March 2013 |
| Jacqueline Mugo, OGW | Member | Appointed on 14 May 2012 |
| Rajabu Mwondi, MBS | Member | Appointed on 14 May 2012 |
| Hirji Shah, OGW | Member | Appointed on 14 May 2012 |
| Eng. Aram Mbui | Member | Appointed on 14 May 2012 |
| Tom Khakame | Member | Appointed on 14 May 2012 |
| George M. Muchai, MBS | Member | Appointed on 14 May 2012 |
| Alfred Mogere | Member | Appointed on 14 May 2012 |
| Mutinda Mwaa | Member | Appointed on 14 May 2012 |
| Chris S. Nambanga | Member | Appointed on 14 May 2012 |
| Elizabeth Kimenyi | Ag. Director General/Secretary | Appointed on 14 May 2012 & Retired on 30 October 2012 |
| Patrick Omutia | Director General/Secretary | Retired on 26 June 2013 |
| F.M Gitaka | Ag. Director General/Secretary | Appointed 27 June 2013 |

KEY OFFICERS

| | |
|-------------------|--|
| Elizabeth Kimenyi | Ag. Director General (Retired on 30 October 2012) |
| Patrick Omutia | Director General (Retired on 26 June 2013) |
| Francis Gitaka | Ag. Director General / (Appointed on 27 June 2013) |
| Justus Mwilidza | Ag. Director / Operations |

DIRECTORS' BENEFITS

Since the last Annual Report of the Authority (then Directorate of Industrial Training) to the date of this report, no Director has received or become entitled to receive any benefit other than Directors' fees and amounts received under employment contract for the Director General. The aggregate amount of emoluments for Directors' services rendered in the financial year is disclosed in notes 4(iii) and 9.

AUDIT AND COMPLIANCE COMMITTEE

| | |
|--------------------|-------------------------------------|
| Chris S. Nambanga | Chairman |
| Rajabu Mwondi, MBS | Member |
| Hirji Shah, OGW | Member |
| Tom Khakame | Member |
| Ernest Nadome | Member |
| Paul M. Mutuku | Senior Internal Auditor / Secretary |

INDEPENDENT AUDITORS

The Auditor - General is the independent auditor in accordance with the Public Audit Act, 2003 and the State Corporations Act CAP 446 and continues in office.

By order of the Board



F.M Gitaka – Ag. Director General / Secretary

CORPORATE GOVERNANCE STATEMENT ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

The Authority is committed to the Standards of good Corporate Governance. The following disclosures aim at emphasizing this commitment.

ROLE OF THE BOARD

The Board is responsible for:

- Development and formulation of policy
- Establishing the strategic plan and guiding its implementation.
- Ensuring that appropriate management structures are in place
- Approving performance targets including budgets and monitoring their achievements.
- Ensuring preparation and presentation of the annual financial statements in accordance with International Financial Reporting Standards and disclosures of other relevant information to stakeholders including the public.
- Identifying and mitigating risks and overseeing the implementation of governance processes that promote compliance with legislation, professional standards and the best corporate governance practices promulgated by relevant authorities.

The Board meets regularly as scheduled but special meetings may be called when the need arises. Board members are given notices and agenda for all meetings which are circulated on a timely basis together with the respective documents for discussion. They are required to declare any conflicts of interest on any matters before the Board and are disqualified from participating in deliberations where there is such a conflict. Board members have signed a code of ethics while employees have signed a code of conduct. members of the Board are Institutional, non executive and hold office for a renewable period of four years. The Board appoints board committees to assist in executing its mandate. The Board also co-opts where necessary expertise to its committees for the discharge of its business. The execution of the Board's policies is vested in the Director General who is appointed by the Board and is also responsible for the effective performance of the Management team which provides support and advice to the Board and its Committees.

COMPOSITION OF THE BOARD

The Board is composed of eleven non-executive Directors. The Chairman together with the member representing special interests are appointed by the Cabinet Secretary Labour Social Security and Services. The executive member of the Board is the Director General. All the non-executive Directors are independent of management.

BOARD COMMITTEES

i) AUDIT AND COMPLIANCE COMMITTEE

The composition of the members of this committee is listed under the Director's report. It is responsible for assisting the Board to discharge its corporate governance responsibilities as follows:

- Review of financial information in particular annual financial statements to ensure compliance with accounting standards, legislation and other disclosure requirements.
- Liaison with the external auditors.
- Maintaining oversight on internal control systems.

- Ensuring that the risk management framework that is in place is effective and addresses all key business risks.
- Review of the function, operations and findings of the Internal Audit Department

ii) FINANCE AND INDUSTRIAL TRAINING LEVY COMMITTEE

The composition of this committee is as follows:

| | |
|-----------------------|--|
| George M. Muchai, MBS | Chairman |
| Jacqueline Mugo, OGW | Member |
| Eng. Aram Mbui | Member |
| Tom Khakame | Member |
| Alfred Mogere | Member |
| Elizabeth Kimenyi | Ag. Director General/Secretary (Retired: 30-10-2012) |
| Patrick Omutia | Director General/Secretary (Retired:26-06-2013) |
| F.M Gitaka | Ag Director General (Appointment 27-06-2013) |

It is responsible for assisting the Board to discharge its corporate governance responsibilities as follows:

- Relationship with the external auditors.
- Reliability and appropriateness of the disclosures in the financial statements and other external financial communications.
- Implementation of an effective business risk management framework.
- Formulation of the Authority's annual budget.
- Ensuring compliance with internal controls.
- Review of financial information in particular annual financial statements to ensure compliance with accounting standards and other disclosure requirements.
- Formulation of the Authority's Financial, Levy Administration, Information Technology, Planning, Supply Chain and Commercial services policies.
- Review of periodic performance reports and targets.

iii) INDUSTRIAL TRAINING COMMITTEE

The composition of this committee is as follows:

| | |
|-----------------------|--|
| Hirji Shah, OGW | Chairman |
| Eng. Aram Mbui | Member |
| Mutinda Mwaa | Member |
| Chris S. Nambanga | Member |
| George M. Muchai, MBS | Member |
| Elizabeth Kimenyi | Ag. Director General/Secretary (Retired: 30-10-2012) |
| Patrick Omutia | Director General/Secretary (Retired 26-06-2013) |
| F.M Gitaka | Ag Director General/Secretary (Appointed 27-06-2013) |

It is responsible for advising the Board on matters that pertain to industrial training issues as follows:

IV) HUMAN RESOURCE MANAGEMENT COMMITTEE

The composition of this committee is as follows:

| | |
|----------------------|--|
| Ernest Nadome | Chairman |
| Jacqueline Mugo, OGW | Member |
| Rajabu Mwondi, MBS | Member |
| Alfred Mogere | Member |
| Mutinda Mwaa | Member |
| Elizabeth Kimenyi | Ag. Director General/Secretary(Retired:30-10-2012) |
| Patrick Omutia | Director General/Secretary (Retired:26-06-2013) |
| F.M Gitaka | Ag. Director General (Appointed 27-06-2013) |

It is responsible for assisting the Board to discharge its human capital responsibilities as follows:

- Ensure compliance with statutory and regulatory requirements
- Deal with policy issues on human resource, administration and logistics.
- The Board appoints other committees as and when the need arises.

INTERNAL AUDIT FUNCTION

The Authority has an Internal Audit function and is currently headed by the Senior Internal Auditor. The function is responsible for evaluating business, operating risks and the internal controls put in place to mitigate the risks. It is also responsible for Monitoring and evaluation of the Authority policies and procedures. The internal reports to the Audit and Compliance Committee and administratively to the Director General.

COMMUNICATION WITH STAKEHOLDERS

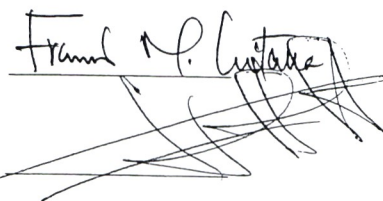
The Authority is committed to:

- Ensuring that stakeholders are provided with full and timely information about its performance.
- Complying with the statutory communication requirements.
- Distributing information to the stakeholders through periodic reports and stakeholder forums.

DIRECTORS' BENEFITS AND LOANS

All the non-executive Directors have continued to receive Directors' Allowances as prescribed and no additional benefits or fees have been given to the Directors. The aggregate amount of Directors' allowance is disclosed in notes 4(iii) and 9 to these financial statements.

FRANCIS .M. GITAKA – AG. DIRECTOR GENERAL



PROF. THOMAS EKAMAIS AKUJA – BOARD CHAIRMAN

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Industrial Training (Amendment) Act, 2011 and the State Corporations Act Cap 446 of the Laws of Kenya require the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Authority, as at the end of the financial year and of its operating results for the year. The acts also requires the Directors to ensure that the Authority keeps proper accounting records, which disclose, with reasonable accuracy, the financial position of the Authority. They are also responsible for safeguarding the assets of the Authority.

The Directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Authority and of its operating results. The Directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

The statement was approved by the Board of Directors on 30/09/2013 and signed on its behalf by:

FRANCIS .M. GITAKA – AG. DIRECTOR GENERAL



PROF. THOMAS EKAMAIS AKUJA – BOARD CHAIRMAN



STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2013

| | | Kshs'000 | Kshs'000 |
|--|----|----------------|----------------|
| OPERATING INCOME | 3 | 532,137 | 417,611 |
| Total | | 532,137 | 417,611 |
| EXPENSES | | | |
| Operations | 4 | 311,041 | 305,858 |
| Staff Cost | 15 | 53,100 | |
| Board Expenses | 16 | 16,662 | |
| Maintenance | 5 | 4,977 | 3,796 |
| Other expenses | 6 | 11,989 | 317 |
| Total | | 397,832 | 309,971 |
| Surplus Before Interest & Tax | 7 | 134,368 | 107,640 |
| Finance costs | | NIL | NIL |
| SURPLUS BEFORE TAX | | 134,368 | 107,640 |
| Tax | 8 | NIL | NIL |
| Net Surplus for the year | | 134,368 | 107,640 |

NB: In the previous year, the Board expenses of Ksh. 35,058,000 were recognized under Operational expenses under note 4.

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2013

| ASSETS | NOTE | 2013 | 2012 |
|---|-------|----------------|----------------|
| | | Kshs'000 | Kshs'000 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 9(a) | 38,845 | 2,356 |
| Intangible Assets | 9(b) | <u>3,262</u> | <u>0</u> |
| Sub total | | 42,107 | 2,356 |
| CURRENT ASSETS | | | |
| Investment in shares | 10(a) | 7,017 | 7,017 |
| Short term investments | 10(b) | 368,370 | 295,000 |
| Deposits held with Collapsed banks | 10(c) | 129,466 | 129,465 |
| Trade and Other Receivables | 11 | 12,933 | 7,869 |
| Cash and Cash equivalent | 12 | <u>325,743</u> | <u>103,170</u> |
| Sub total | | 843,529 | 542,420 |
| TOTAL ASSETS | | 885,636 | 544,776 |
| CAPITAL FUND AND LIABILITIES | | | |
| CAPITAL FUND | | | |
| Accumulated Fund | 13 | 544,776 | 437,136 |
| Capital Grant | | 90,000 | |
| Surplus for the year | 13 | 134,368 | 107,640 |
| Current Liabilities | | | |
| Trade and Other Payables | 18 | <u>116,492</u> | <u>0</u> |
| TOTAL CAPITAL FUND AND LIABILITIES | | 885,636 | 544,776 |

The financial statements on pages 12 to 28 were approved by the Board of Directors on 30/09/2013 and signed on its behalf by:


Prof. Thomas Ekamais Akuja - Board Chairman


F.M. Gitaka - Ag. Director General

STATEMENT OF CHANGES IN RESERVES FOR THE YEAR ENDED 30th
 JUNE 2013

| | Notes | Accumulated Fund Kshs'000 | Capital Reserve Kshs'000 | Total Kshs'000 |
|--|-------|---------------------------------|--------------------------------|-------------------|
| | | | | Kshs'000 |
| At 30 June 2011 | | 460,421 | | 460,421 |
| As earlier stated | | 460,421 | | 460,421 |
| Prior year adjustments | | (23,285) | | (23,285) |
| Restated balance | | 437,136 | | 437,136 |
| Surplus for the year | | 107,640 | | 107,640 |
| At 30 June 2012 | | 544,776 | | 544,776 |
| As earlier stated | | 544,776 | | 544,776 |
| Prior year adjustments | | 0 | | 0 |
| Restated balance as at 30 June 2012 | | 544,776 | | 544,776 |
| Restated balance as at 1 July 2012 | | 544,776 | | 544,776 |
| Development grant | | 0 | 90,000 | 90,000 |
| Surplus for the year | | 134,368 | | 134,368 |
| At 30 June 2013 | | 679,144 | 90,000 | 769,144 |

CASH FLOW STATEMENT FOR THE YEAR ENDED 30TH JUNE 2013

| | NOTE | 2013 | 2012 |
|---|------|----------|----------|
| Operating activities: | | Kshs'000 | Kshs'000 |
| Cash generated from operations | 14 | 226,028 | 63,075 |
| Interest received | | 31,655 | 20,031 |
| Net cash generated from operating activities | | 257,683 | 83,106 |
| Cash flow from investing activities: | | | |
| Purchase of property, plant and equipment | | 51,741 | (2,672) |
| Net cash used in investing activities | | (51,741) | (2,672) |
| Cash flow from financing activities: | | | |
| Prior year adjustment | | 0 | (23,285) |
| Net cash generated from financing activities | | 90,000 | (23,285) |
| Net increase/(decrease) in cash and cash equivalents during the year | | 295,942 | 80,434 |
| Movement in cash and cash equivalents: | | | |
| As at 1 July | | 527,635 | 447,201 |
| Increase/(Decrease) | | 295,942 | 80,434 |
| As at 30 June | | 823,577 | 527,635 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30th JUNE 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. For purposes of reporting under the State Corporations Act and Industrial Training (Amendment) Act 2011, the Balance sheet in these financial statements is represented by the statement of Financial Position and the profit and loss account is presented in the statement of comprehensive income. These policies have been consistently applied over the years unless otherwise stated:

a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRSs). The financial statements are prepared under the historical cost basis of accounting and presented in the functional currency, Kenya Shillings (Kshs) rounded to the nearest thousands of Kenya Shilling (Kshs '000).

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions. It also requires Directors to exercise their judgment in the process of applying the Authority's accounting policies. The areas involving a higher degree of judgment and complexity, or where assumptions and estimates are significant to the financial statements are disclosed in note 2.

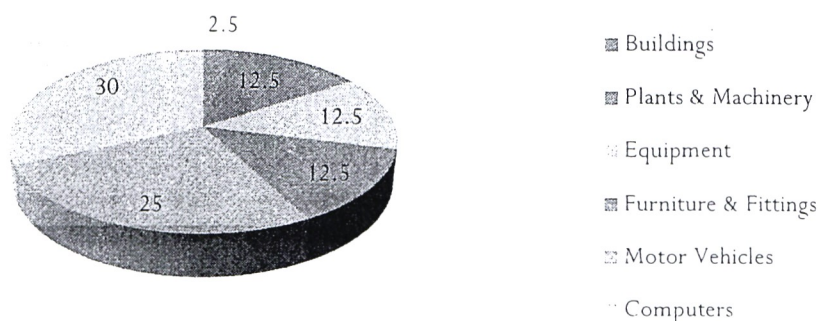
b) Property, plant, equipment and depreciation

Property, plant and equipment are stated at cost, less accumulated depreciation and any impairment in value.

Subsequent costs are included in the assets' carrying amount or recognized as separate assets as appropriate, only where it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the items can be measured reliably. All other repairs and maintenance costs are charged to the income statement in the financial year in which they are incurred.

Property, plant and equipment acquired under hire purchase agreements and finance lease hire arrangements are capitalized at the date of the agreement. The interest element of each installment is charged to the income statement at the time each installment falls due. Depreciation is calculated on the straight line basis, at annual rates estimated to write off carrying values of the property, plant and equipment over their expected useful lives. The rates in use are:

Depreciation Rates



The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. An impairment loss is recognized for the amount by which the assets' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the assets fair value less costs to sell and value in use.

If any such indications exist and where the carrying values exceed the recoverable amount, property, plant and equipment are written down to their recoverable amounts.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating surplus / (deficit).

c) Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, trade and other receivables, trade and other payables and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

d) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Authority and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognized.

Training levy and Registration of trainers

Revenue from training levy is recognized when the demand advices are raised by the Authority. However, the amounts will be subjected to adjustments when errors are realized, in relation to number of employees covered.

Miscellaneous income and interest income

Miscellaneous income is recognized when the service has been provided and billed while interest income is recognized on accrual basis.

e) Receivables

Receivables are recognized at anticipated realizable value less an allowance for any uncollectible amounts.

General provisions are made based on directors' valuation of the receivables and other exposure in respect of losses, which, although not specifically identified, are known from experience to be present in the receivables.

Specific provision is made for all known doubtful debts. Bad debts are written off when all reasonable steps to recover them have been taken without success.

f) Taxation

Income from levy is exempted from income tax.

g) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand.

h) Revenue reserve

Surpluses / (deficits) from the income statement are accumulated in the Accumulated Fund on an annual basis.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

i) Critical accounting estimates and assumptions

Critical estimates are made by Directors in determining depreciation rates for property, plant, and equipment. The rates used are set out in note 1(b) above.

ii) Critical judgments in applying the entity's accounting policies

In the process of applying the Authority's accounting policies, Directors have made judgments in determining:

- The classification of financial assets and leases.
- Whether assets are impaired.
- Provisions and contingent liabilities.
- Presentation of financial statements.

3. OPERATING INCOME

| | 2013 | 2012 |
|------------------------------|----------------|----------------|
| | Kshs.'000 | Kshs.'000 |
| Training levy | 437,009 | 395,002 |
| Registration of trainers | 2,898 | 2,425 |
| Miscellaneous income | 2,738 | 153 |
| Income from investments | 31,655 | 20,031 |
| Sale of curriculum documents | 50 | - |
| Grants to Board | 8,640 | - |
| Trade test fees | 41,665 | - |
| Course and hostel fees | 7,482 | - |
| | 532,137 | 417,611 |

Miscellaneous income comprises income such as sale of curriculum documents, equiting certificates and sale of boarded goods.

4. OPERATIONS

| | Sub-note | 2013 Kshs'000 | 2012 Kshs'000 |
|--|----------|------------------|------------------|
| Training expenses | (i) | 146,600 | 136,541 |
| Trade test expenses | (ii) | 86,671 | 78,427 |
| Training inspectorate expenses | | 6,730 | 5,236 |
| Curriculum Development | | 3,322 | 3,463 |
| Library | | 271 | 38 |
| Staff development | | 1,045 | 99 |
| Seminars & workshops | | 4,908 | 1,546 |
| Transport, travelling & subsistence | | 13,408 | 23,041 |
| Printing services & sundry expenses | | 3,521 | 4,362 |
| Stationery | | 495 | 2,835 |
| Bank charges | | 785 | 485 |
| Courier services | | 1,223 | 977 |
| Hospitality | | 2,611 | 747 |
| Computer expenses | | 595 | 1,922 |
| Sector committee expenses | | 169 | 5,029 |
| Advertisement & Publicity | | 8,570 | 5,211 |
| Printing of certificates and test papers | | 4,468 | - |
| Internet expenses | | 1,507 | - |
| Consultancy | | 290 | - |
| Meals allowance | | 10,500 | - |
| Transport operating expenses | | 11,373 | - |
| National industrial training policy | | 1,205 | - |
| Provision of Audit Fees | | 700 | - |
| Upgrading of technology | | 74 | - |
| Part-time lecturers | | | 801 |
| Council Board members | | | 35,058 |
| | | 311,041 | 305,818 |

- (i) Training expenses mainly comprise reimbursement to contributors, reimbursement for items for apprentices, industrial attachment, courses and hostel fees and female sponsorship.
- (ii) Trade test expenses comprise trade test development, examiners/instructors fees, examiners per diem and related courier services.
- (iii) Council/Board expenses comprise honoraria, council/board and committees expenses. The Board replaced the council on 14 May 2012.

5. MAINTENANCE

| | 2013 | 2012 |
|----------------------------|--------------|--------------|
| | Kshs'000 | Kshs'000 |
| Office tools & Equipment | 473 | 688 |
| Workshop tools & equipment | 4,179 | 935 |
| Buildings | 325 | 2,173 |
| Total | 4,977 | 3,796 |

6. OTHER EXPENSES

| | Note | 2013 | 2012 |
|--|-------|----------|----------|
| | | Kshs'000 | Kshs'000 |
| Provision for bad and doubtful debts | 16 | 0 | - |
| Depreciation of property, plant and equipment And amortization of intangible assets | 9a&9b | 11,988 | 317 |
| | | 11,988 | 317 |

7. SURPLUS BEFORE TAX

| | | 2013 | 2012 |
|--|-------|----------|----------|
| | | Kshs'000 | Kshs'000 |
| The surplus before tax is stated after charging: | | | |
| Depreciation of property, plant and equipment and Amortization of intangible assets | 9a&9b | 11,988 | 317 |
| Directors' emoluments: | | | |
| -Fees | | - | 35,058 |
| -Other emoluments | | - | - |
| Auditors' remuneration | | - | - |
| Provision for bad and doubtful debts | | 0 | - |
| Investment income | | 31,655 | 20,031 |

| | | |
|----------------------|-------|-----|
| Miscellaneous income | 2,738 | 153 |
|----------------------|-------|-----|

8. TAXATION

Income from levy is exempted from income tax.

9(a). PROPERTY, PLANT AND EQUIPMENT

According to section 33(2) of the National Industrial Training (Amendment) Act 2011, "all property, which immediately before the commencement of this Act was vested in the Directorate of Industrial Training shall on the commencement of this Act, vest in the Authority subject to all interests, liabilities, charges, obligations and trusts affecting such property." An inventory of such property has been made and is due for valuation before the values are included in the financial statements.

| | COMPUTER & RELATED EQUIPMENT | MOTOR VEHICLE | PLANT AND MACHINERY | FURNITURE | TOTAL |
|---|------------------------------------|------------------|------------------------|------------|---------------|
| COST | KSHS'000 | KSHS'000 | KSHS'000 | KSHS'000 | KSHS'000 |
| As at 1 July 2011 | | | | | 0 |
| Addition at Cost | 2,672 | 0 | 0 | 0 | 2,672 |
| Depreciation charge for the year 2011/2012 | (317) | 0 | 0 | 0 | (317) |
| Net Book Value as at 30 June 2012 | 2,356 | 0 | 0 | 0 | 2,356 |
| At 1 July 2012 at Cost | 2,672 | 0 | 0 | 0 | 2,672 |
| Additions at Cost | 2,904 | 27,166 | 16,371 | 640 | 47,081 |
| Total Costs as at 30th June 2013 | 5,576 | 27,166 | 16,371 | 640 | 49,753 |
| Accumulated Dep as at 1/7/13 | (317) | - | - | - | (317) |
| Charge for the year 2012/2013 | (1,672) | (6,792) | (2,046) | (80) | (10,591) |
| Total accumulated depreciation as at 30 th June 2013 | (1,990) | (6,792) | (2,046) | (80) | (10,908) |
| Net Book Value as at 30th June 2013 | 3,586 | 20,375 | 14,325 | 560 | 38,845 |
| Net Book value as at 30 June 30 June 2012 | 2,356 | 0 | 0 | 0 | 2,356 |

9(b) Intangible assets

| | CCTV CAMERAS Kshs '000' | TOTALS Kshs. '000' |
|---|----------------------------|-----------------------|
| VALUE AT COST 1/7/2013 | 0 | 0 |
| ADDITIO NET BOOK VALUE AS AT 30/6/2013 DURING 2012/2013 | 4,660 | 4,660 |
| DEPRECIATION AS AT 1/7/2012 | 0 | 0 |

| | | |
|--------------------------------|---------|---------|
| DEPRECIATION DURING 2012/2013 | (1,398) | (1,398) |
| NET BOOK VALUE AS AT 30/6/2013 | 3,262 | 3,262 |
| NET BOOK VALUE AS AT 30/6/2013 | 0 | 0 |

The Intangible assets relate to computer software and the amortization of intangible assets has been based on 30% of cost of the software. This is the same rate used in depreciating computers as disclosed under note 1(b) of the financial statements under properties plant and equipment.

10. Investments

The investments comprise shares held, treasury bills, and short term deposits including such deposits held in the collapsed banks:

- (a) The shares in Consolidated Bank (K) Limited whose face value is Ksh.8,400,000.00 are valued at Kshs. 7,017,240 comprise:

| Cost | Amount |
|--|----------|
| | KSHS'000 |
| 90,000 Ordinary shares of Ksh.20 each less amount written off 1998 | 417 |
| 330,000 4 % Non-cumulative Preference shares of ksh.20 each | 6,600 |
| | 7,017 |

The shares were acquired in 1993 through capitalization of deposits and accrued interest received from Home Savings and Mortgages Limited, Business Finance Company Limited and Jimba Credit Corporation limited as at 31st March, 1990.

- (b) Treasury bills invested through financial institutions and short term fixed deposits comprising:

| Institution | 2013 | 2012 |
|-----------------------|----------------------------|----------------------------|
| | Treasury bills KSHS'000 | Treasury bills KSHS'000 |
| Kenya Commercial Bank | 191,101 | 115,000 |
| National Bank | 98,526 | 100,000 |
| Co-operative Bank | 78,743 | 80,000 |
| | 368,370 | 295,000 |

- (c) Deposits held with collapsed banks

| Institution | 2013 | 2012 |
|-------------------------|---------------------------|----------------------------|
| | Fixed Deposit KSHS'000 | Fixed deposits KSHS'000 |
| Prudential Bank Ltd | 50,595 | 50,595 |
| Nairobi Finance Company | 8,530 | 8,530 |

| | | |
|--------------------------------|----------------|----------------|
| Pioneer Building Society | 15,000 | 15,000 |
| Continental Credit Finance Ltd | 8,830 | 8,830 |
| Country Building Society | 2,000 | 2,000 |
| Allied Credit Limited | 5,388 | 5,388 |
| Middle Africa Finance Co. Ltd | 5,345 | 5,345 |
| United Trustee Finance Co. Ltd | 1,300 | 1,300 |
| Thabiti Finance Company | 26,029 | 26,029 |
| Inter Africa Credit Ltd | 2,461 | 2,461 |
| Meridian BIAO Bank (K) Ltd | 3,988 | 3,988 |
| | 129,466 | 129,466 |

11. RECEIVABLES

| | 2013 | 2012 |
|--|---------------|---------------|
| | 3 | |
| | Kshs'000 | Kshs'000 |
| Receivables | 7,356 | 6,982 |
| Accrued investment income | 3,488 | |
| Outstanding imprest | 2,089 | 786 |
| Other receivables | 10,999 | 10,999 |
| | 23,932 | 18,767 |
| Less: provision for bad and doubtful debts | (10,999) | (10,999) |
| Net Receivables | 12,933 | 7,768 |

Specific provision has been made for all known doubtful debts. Bad debts are written off when all reasonable steps to recover them have been taken without success. The other receivables comprises unaccounted bank withdrawals and money lost in a bank robbery while on transit from the bank, now deemed lost following the acquittal of the accused officers on charges leveled against them.

12. CASH AND CASH EQUIVALENTS

| | Note | 2013 | 2012 |
|--------------------------------------|------------|----------------|----------------|
| | | Kshs'000 | Kshs'000 |
| Cash in hand | | 549 | 355 |
| Cash at Bank | | 325,195 | 102,815 |
| Investment in short term securities | | 368,370 | - |
| Deposits with financial institutions | 10(a) &(b) | 129,466 | 424,465 |
| Total | | 823,580 | 527,635 |

For purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, cash at bank and deposits with financial institutions.

13. ACCUMULATED FUND

| | 2013 | 2012 |
|--------------------------|----------|----------|
| Note | Kshs'000 | Kshs'000 |
| At 1 July | 544,776 | 460,421 |
| Prior year adjustments | - | (23,285) |
| Restated Opening balance | 544,776 | 437,136 |
| Surplus for the year | 134,368 | 107,640 |
| At 30 June | 679,144 | 544,776 |

Accumulated fund comprises accumulated surpluses over the years.

14. CASH GENERATED FROM OPERATIONS

| Reconciliation of surplus before tax with cash generated from operations: | 2013 | 2012 |
|---|----------------|---------------|
| | Kshs. '000 | Kshs. '000 |
| Surplus for the year before tax | 134,368 | 107,640 |
| Adjustment for : | | |
| Finance income | 31,655 | (20,031) |
| Depreciation | 11,989 | 317 |
| Error in brought forward balance | | (23,285) |
| Cash generated from operations before working capital changes | 114,702 | 64,641 |
| Movements in: | | |
| Payables | 116,491 | |
| Receivables | -5,167 | (1,566) |
| Cash generated from operations | 226,028 | 63,075 |

15. STAFF COST

| Sub-note | 2012 | |
|---------------------|---------------|------------|
| | 2013 | 2012 |
| | Kshs'000 | Kshs'000 |
| Part-time lecturers | 3,350 | 801 |
| Staff cost | 49,750 | |
| TOTAL | 53,100 | 801 |

16. BOARD EXPENSES

| Sub-note | 2012 | |
|--------------------------------------|---------------|---------------|
| | 2013 | 2012 |
| | Kshs'000 | Kshs'000 |
| Board expenses (iii) | 12,474 | 35,058 |
| Human resource committee | 2,010 | |
| Audit and compliance committee | 2,011 | |
| Finance and industrial training levy | 167 | |
| | 16,662 | 35,058 |

17. RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Financial risk management

The Authority's activities expose it to a variety of financial risks including market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Authority's overall risk management policies are set out by the board and implemented by management, and focus on the unpredictability of changes in the business environment and seek to minimize the potential adverse effects of such risks on the Authority's performance by setting acceptable levels of risk. The Authority does not hedge against any risk.

i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge on obligation. Credit risk mainly arises from financial assets, and is managed on a Authority-wide basis. The Authority does not grade the credit quality of financial assets that are neither past due nor impaired.

Credit risk on financial assets with banking institutions is managed by dealing with institutions with good credit ratings and placing limits on deposits that can be held with each institution.

Credit Risk on receivables is managed through a monthly review of outstanding balances. Payments not received within the contractual credit period are enforced through recovery measures. Any errors in the demand notes that can delay revenue realization are adjusted on a monthly basis.

The maximum exposure of the Authority to credit risk as at the balance sheet date is as follows:

| | Fully Performing Kshs'000 | Past due but not Impaired Kshs'000 | Past due and Impaired Kshs'000 | Total Kshs'000 |
|----------------------------|---------------------------------|--|--------------------------------------|-------------------|
| 30 th June 2013 | | | | |
| Financial assets | | | | |
| Receivables | 6,983 | | | 6,983 |
| Outstanding imprest | 786 | | | 886 |
| Other receivables | - | | 10,999 | 10,999 |
| Shares | 7,017 | | | 7,017 |
| Treasury bills | 295,000 | | | 295,000 |
| Short-term deposits | | 129,466 | | 129,466 |
| Cash and Bank balances | 103,170 | | | 103,170 |
| Gross financial assets | 602,206 | 129,466 | 10,999 | 553,421 |
| Less: Impairment allowance | - | - | (10,999) | (10,999) |
| As at 30 June 2012 | 412,956 | 129,466 | - | 542,422 |
| Financial assets | | | | |
| Receivables | 6,983 | | | 6,983 |
| 30 th June 2012 | | | | |
| Financial assets | | | | |
| Receivables | 6,203 | | | 6,203 |
| Outstanding imprest | 786 | | | 886 |
| Other receivables | - | | 10,999 | 10,999 |
| Shares | 7,017 | | | 7,017 |
| Treasury bills | 295,000 | | | 295,000 |
| Short-term deposits | 163,000 | 129,466 | | 292,466 |
| Cash and Bank balances | 154,736 | | | 154,736 |
| Gross financial assets | 330,956 | 129,466 | 10,999 | 471,421 |