

REPUBLIC OF KENYA



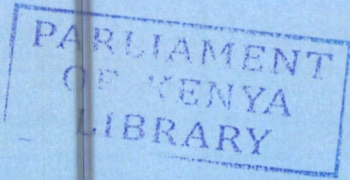
Paper Laid
By Hon Aden Duale, MP
(Lomb) on 12.10.2017pm



OFFICE OF THE AUDITOR-GENERAL



REPORT



OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KENYA INDUSTRIAL RESEARCH AND
DEVELOPMENT INSTITUTE**

**FOR THE YEAR
ENDED 30 JUNE 2016**





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OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI

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KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2016**

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

**KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)
POPO ROAD, NAIROBI SOUTH C, P.O. BOX 30650 - 00100, NAIROBI, KENYA
TELEPHONE: 0202388216/0202393466. Website: www.kirdi.go.ke
Email: dir@kirdi.go.ke**



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NAMES AND ACRONYMS

OTA	Coffee Ochratoxin A project funded by European Union
UNIDO	United Nations Industrial Development Organization
KAPP	Kenya Agricultural Productivity Project of KARI
IFS	International Foundation for Science
WIFIP	Development of fertilizer from water hyacinth in lake region Project
ATPS	Africa Technology Policy Studies Network
ADB	Africa Development Bank
DANIDA	Danish Industrial Development Agency
MOIED	Ministry of Industrialization and Enterprise Development
G.O.K	Government of Kenya
R & D	Research and Development
RTI	Research, Technology and Innovation

KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)

KEY INSTITUTE INFORMATION AND MANAGEMENT

(a) Background information

The Kenya Industrial Research and Development Institute (KIRDI) is a statutory research organization established under the Science and Technology Act Cap 250, 1979 (now repealed and replaced by the Science, Technology and Innovation Act 2013). KIRDI is the country's principal national institution responsible for industrial research and development and domiciled under the Ministry of Industrialization and Enterprise Development. It is mandated to carry out Research and Development in industrial and allied technologies including, Civil Engineering, Mechanical Engineering, Textile Technology, Electrical Engineering, Mining, Power Resources, Chemical Engineering, Industrial Chemistry, Food Technology, Ceramics, Information and Communications Technologies (ICT) and Clay Technology. The Institute's mission is to undertake Industrial Research, Technology and Innovation and disseminate findings that will have a positive impact on national development. As well, its vision is to be a Centre of Excellence in Industrial Research, Technology & Innovation.

(b) Principal Activities

The principal activity of the Institute is to undertake Industrial Research Technology and Innovation and disseminate findings that will have a positive impact on the national development.

(c) Key Management

The Institute's day-to-day management is under the following key organs:

- The Office of Director and Chief Executive Officer;
- Research Technology and Innovation Department
- Finance and Administration Department
- KIRDI Enterprise Services Department
- Corporate Services Department

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2016 and who had direct fiduciary responsibility were:



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S.N	Designation	Name
1	Ag. Director , Chief Executive Officer	Eng. Joseph K. Kamau
2	Deputy Director, Research Technology And Innovation	Dr. Kenneth Chelule
3	Ag. Head KIRDI Enterprise Services & Chief Research Scientist	Dr. Moses Makayoto (OGW)
4	Deputy Director - Corporate Services	Mr. James Nyagah
5	Assistant Director- Finance	Ms. FloiceMukabana
6	Assistant Director - Human Resource and Administration	Mr. JairusOmbui
7	Principal Internal Auditor	Mr. John Kahura

(e) Fiduciary Oversight Arrangements

The Board works through various sub-committees which include; The Research, Technology and Innovation committee, Finance and Special projects Committee, Risk and Audit Committee, Human Resources and Administration Committee and Management Committee.

Research, Technology and Innovation Committee

This committee consisted of five members. The committee was chaired by Prof. Tuikong D. K. Serem. It had a responsibility to oversee the Institutes research project plans, Technology and Research. It also reviews projects proposals. Other members of the committee include Prof. Christopher G. Nyagah, Dr. David Njubi, Ms. Nancy Muya and Eng. Joseph K. Kamau.

Finance and Special Projects committee

This committee consisted of four members. The committee was chaired by Mr. Ahmed M. Abdi. This Committee had oversight on all financial issues including budgets, financial reporting process and controls, and procurement. It also reviews proposals for capital developments. In addition the committee appraises capital budgets for recommendation to the Board. Other members of the committee include Prof. Tuikong Serem, Ms. Nancy Muya, Mr. David Gichuhi and Eng. Joseph K. Kamau.

Risk and Audit Committee

This committee consisted of three members. The committee was chaired by Prof. Christopher G. Nyagah. It had an oversight responsibility of reviewing, assessing adequacy and monitoring of internal controls, risk management and corporate governance processes; examining internal and external audit reports and the recommendations therein. Other members

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of the committee include Ms. Nyawira Ophelia Njeru and Mr. Christopher K. Nkang'i.

Human Resources and Administration Committee

This committee consisted of four members. The committee was chaired by Ms. Nyawira O. Njeru. It was responsible for human resource matters including recruitment, succession management, monitoring and appraising the performance of senior management, including the Managing Director, review of the HR policies, review of general administrative and procurement policies and oversight of corporate communication policies. Other members of the Committee include Mr. Ahmed M. Abdi, Mr. Christopher K. Nkang'I, Dr. David Njubi and Eng. Joseph K. Kamau.

(f) Institute's Headquarters

P.O. Box 30650 00100
KIRDI South C Campus
Popo Road, off Mombasa Rd
NAIROBI, KENYA

(g) Institute's Contacts

Telephone: (254) (020) 6000011
E-mail: dir@kirdi.go.ke
Website: www.go.ke

(h) Institute 's Bankers

1. National Bank of Kenya
Harambee Avenue
NAIROBI
2. Barclays Bank of Kenya
N I C Branch
NAIROBI

(i) Independent Auditors

The Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
NAIROBI, KENYA



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(j) Principal Legal Advisor

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

Guserwa and Co. Advocates
P. O. Box 8384 - 00200,
NAIROBI

Kounah & Company Advocates
2nd Floor, Jameson Court
Ngong Road
P.O. Box 8035-00200
NAIROBI



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THE BOARD OF DIRECTORS

DIRECTOR	PROFILE
 <p>Dr. Nathan KitioPsiwa (49) Chairperson Board of Directors</p>	<p>Dr.Psiwa holds MSc (Dent) from the University of Western Cape South Africa and BDS from the University of Nairobi. He is a Council Member of Rongo University College. Dr.Psiwa is a founder member and Honorary Secretary of the Orthodontic Society of Kenya (OSK) and a Registered Member of the Kenya Medical Practitioner’s board, among others. He has held various positions in the Public Service and currently practises as Consultant Orthodontist at the Nairobi orthodontic and Dentistry Centre.</p>
 <p>Prof. Tuikong D. K. Serem, OGW (65) Member of the Board of Directors</p>	<p>Prof.Serem holds a Doctor of Education (Ed. D) degree from the University of Wyoming (USA), MA degree in Education Administration and a BA degree in Education. He has had a long career in University education particularly in the area of administration. Prof Serem has served as a Principal and Deputy Vice Chancellor (Maseno University), Principal (Narok University College) and AG. Vice Chancellor (Maasai Mara University). He is a Fellow member of the Kenya Institute of Management (KIM) and also a Council Member. Prof.Serem has been decorated with OGW medal by the Kenya Government. He is currently a Professor of Education at Moi University and an adjunct Professor at Mount Kenya University.</p>
 <p>Mr. Christopher K. Nkang'i (37) Member of the Board of Directors</p>	<p>Mr. Nkang'i holds B.com degree marketing option from the University of Nairobi and Higher national Diploma in Marketing From Kenya Institute of Management. He is a board member of Export processing Zones Authority, A business manager of Dial-Up Associates Company Limited and Committee Vice-chairperson of Igembe Community Development Committee.</p>



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Ms. Nyawira Ophelia Njeru (42)
Member of the Board of Directors.

Ms. Njeru is an Accredited Certified Executive Leadership Coach (CELC) and holds an MSC Marketing from the University of Wales and is pursuing a Masters in Public policy and Administration at Kenyatta University. She holds a B.Com degree from Catholic University of Eastern Africa and a Post graduate Diploma in Marketing from Chartered Institute of Marketing Uk. Ms. Njeru is a member of Institute of Directors (Kenya), International coach Federation and chartered Institute of Marketing Uk. Ms. Njeru has over Fifteen (15) years' experience in Management has served in various leadership and managerial positions in both public and private sectors. She is currently working at Sealed Air Corporation as Business Director, Eastern and Southern Africa.



Ms Nancy Muya (54)
Alternate Member of the Board of Directors.

Ms. Muya holds BSc (Maths/Chem) degree from Kenyatta University and is pursuing MSc (Entrepreneurship) degree at Jomo Kenyatta University of Agriculture and Technology. She has over 20 years of experience in civil service, offering her expertise in industrial development both at the Ministry and in the field. She has undergone several short term training programmes in industrial development, management and leadership, locally, internationally and has served in various boards. She is currently serving as Senior Assistant Director, Ministry of Industrialization and Enterprise Development.



Dr. David Njubi (52)
Alternate Member of the Board of Directors.

Dr. Njubi holds Ph.D. (Animal Science, MSc (Animal Breeding Genetics), MSc in Information Systems and BSc in Agriculture) from the University of Nairobi. He has several years of experience in research and development activities supporting sustainable smallholder programmes. He has previously worked for various organizations including; ILRI, ILCA, KARI and has authored and co-authored several research papers relevant to national development.

Dr. Njubi currently serves as Principal Science Secretary at the National Commission for Science Technology and Innovation (NACOSTI).



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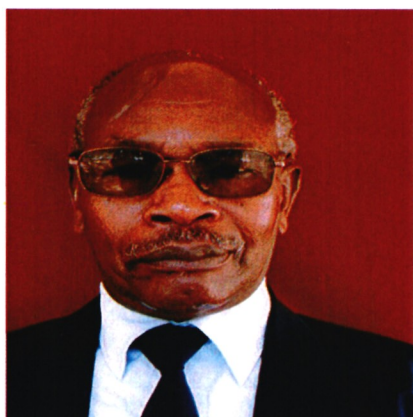
Mrs. M. Onyimbo (60)
Alternate Member of the Board of Directors.

Mrs Onyimbo, holds a B.A. (Sociol. and Govern.) degree from the University of Nairobi and has undertaken various administrative, management and leadership courses. She has vast experience in management and administration and project coordination and has served in boards of various public institutions. She is currently a Senior Deputy Secretary, at The National Treasury.



Mr. David Gichuhi (56)
Alternate Member of the Board of Directors.

Mr.Gichuhi holds a B.Ed (Hons) degree in mathematics and Business Studies from University of Nairobi and Executive Master of Business Administration. He has undertaken Courses in Corporate Governance, Finance, Strategic Leadership Development and Project Development and Management. He has several years of experience in public sector on corporate governance matters and has represented the Inspector General (Corporations) in Boards of various public organizations. He currently serves as Senior Assistant Inspector General (Corporations).



Prof. Christopher G. Nyagah (67)
Member of the Board of Directors.

Prof.Nyagah holds a Ph.D degree in Chemistry, MSC and BSc hons from the University of Nairobi. He has more than 30 years in research, university teaching and management and has published several articles in referred journals. Prof.Nyagah is currently a professor of Chemistry at Jomo Kenyatta University of Agriculture and Technology.



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Mr. Ahmed Muhamed Abdi (42)
Member of the Board of Directors.

Mr. Abdi holds LLB. Hons. IIUM from Malaysia and B.Ed (Eng. & Literature) from Egerton University. He has over fourteen (14) years experience in experience in development work, programme management, governance, disaster preparedness and response working in various capacities for NGOs in liaison with community groups, international humanitarian organisations, government departments and UN agencies as well as State Corporations undertaking different assignments



Eng. Joseph. K. Kamau (47)
Ag. Director/Secretary to the Board

Eng. Joseph. K. Kamau holds BSC (Hons) in Mechanical Engineering from the University of Nairobi. He has a wide experience in mechanical engineering having worked at KIRDI-EDSC for 24years in various managerial and leadership positions. Through the years, he has been involved in the design and implementation of a range of research, engineering and development projects in KIRDI and in collaboration with diverse partners such as UNIDO, Kenyatta university, MESP-Trust, Ministry of industrialization among others.

KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)

MANAGEMENT TEAM

MEMBER	PROFILE
 <p>Eng. Joseph K. Kamau Ag. Director/Secretary to the Board</p>	<p>ENG. JOSEPH. K. KAMAU(47) holds BSC (Hons) in Mechanical Engineering from the University of Nairobi. He has a wide experience in mechanical engineering having worked at KIRDI-EDSC for 24 years in various managerial and leadership positions. Through the years, he has been involved in the design and implementation of a range of research, engineering and development projects in KIRDI and in collaboration with diverse partners such as UNIDO, Kenyatta university, MESP-Trust, Ministry of industrialization among others.</p>
 <p>Dr. Moses Makayoto (OGW) Chief Research Scientist/ Ag. Head KIRDI Enterprise Services</p>	<p>DR. MOSES MAKAYOTO(63) holds aPh.D degree in Chemical Engineering from the Norwegian University of Science and Technology, MSc degree, Chemical Engineering, Dar-es-Salaam University, Tanzania, and a BSc (Hons), Chemistry, University of Nairobi. He is a Chartered Chemical Engineer and Fellow of the Institution of Chemical Engineers, United Kingdom. He has over 30 years' experience in research, academia, policy and management in the areas in Chemical Engineering and Biotechnology</p>
 <p>Dr. Kenneth Chelule Deputy Director Research Technology and Innovation</p>	<p>DR. KENNETH CHELULE (46) holds B.Ed (Tech) from Moi University, MSc (CAE) and PhD (Mechanical Engineering/Bioengineering) from Staffordshire University, UK. He has over 10 years' international experience in Product Development (R&D), Product Certification (CE Marking) and Product Commercialisation. He is a Member of the International Society for Biomechanics (ISB).</p>



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Mr. James Nyagah
Deputy Director Corporate
Services

MR. JAMES NYAGAH (62) holds a bachelor of Textiles Degree from University of Bombay in India and is a member of various Professional Bodies including The Quality Management Association of Kenya and Kenya Institute of Management (KIM). He has over 30 years experience in textile engineering and quality Systems Management, gained in various public and private organisations.



Ms. Floice Mukabana
Assistant Director - Finance

MS. FLOICE MUKABANA(41) holds LLB degree from the University of Nairobi and an MBA from Jomo Kenyatta University. She is a member of several professional bodies including the Institute of Certified Public Accountants (ICPAK), Institute of Certified Public Secretaries (ICPSK) and the Law Society of Kenya(LSK). She has over 10 years' experience in finance and accounting gained in telecommunications and in the Public Sector.



Mr. Jairus Ombui
Assistant Director -
Human Resource Management
and Administration

MR. JAIRUS OMBUI (55) holds a Bachelor of Commerce Degree (Business Administration) from University of Poona, India and an MBA from the Management University of Africa. He is a member of the Institute of Human Resource Management, Kenya (IHRM) and has over 20 years' experience in the Public Service.



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Mr. John Kahura
Principal Internal Auditor

MR. JOHN KAHURA (58) holds a Bachelor of Business Administration (Accounting Option) from St. Pauls University and is a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He has over 30 years' experience in Finance and Accounting gained in the Public Service.



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CHAIRMAN'S STATEMENT



Research and Development (R&D) is emerging as an important tool for economic growth in modern economies. R&D results in innovation, which improves the quality and quantity of production. Industrial R&D improves the quality of manufacturing and Total Factor Productivity in the manufacturing sector. It is with this understanding that KIRDI has continued to invest and engage in Industrial Research, Technology and Innovation.

During 2015/2016 financial year the Institute commenced equipping of the newly constructed Research, Technology and Innovation Laboratories with state of the art equipment. Equipment for the leather Research and Capacity building pilot plant were procured at a cost of Ksh. 376M being part of equipping the facility. The Institute also continued with the construction of the ultra-modern Research, Technology and Innovation laboratories at Nairobi, South B, which current stands at 60% completion rate and Ksh 374M was invested in the project during the 2015/2016 financial year.

During the 2015/2016 financial year the institute continued to implement Research, Technology and Innovation programmes aligned to the Government's priority sectors of Leather, Textile, Agro-processing and Capacity building and contributed to the country's industrialization agenda as well as employment and wealth creation.

The institute is also taking matters of Constitutionalism, Governance and Integrity issues serious and thus during the 2015/2016 financial year the institute continued to review and align its policies and programmes with the constitution, adherence to Mwongozo Code of Governance and Implementation of The Executive Order No.7 of 2015.

Signature:
Chairperson: DR. NATHAN K. PSIWA

Date: 5/05/2017

KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)

ACTING CHIEF EXECUTIVE OFFICER/DIRECTOR STATEMENT



Background

I am delighted to present the KIRDI financial report for the 2015/2016 financial year. The institute has continued to undertake its mandate as stipulated in the Science, Technology & Innovation Act (2013) as well as play its role in the country's industrialization agenda as envisaged in the Vision 2030. KIRDI itself is a Vision 2030 Flagship project (transformation of KIRDI into a world class research organization) and therefore the institute has intensified

its developmental and operational programmes to achieve that global competitiveness status. The Institute continued to implement activities in the Government's industrialization priority sectors of Leather, Textile and Agro-processing.

Major Achievements during the 2015/2016 financial year

(a) Infrastructure Development

Under the transformation of KIRDI into a world class research Institution programme, the Institute commenced the equipping of Research, Technology and Innovation Laboratories at Kisumu. The leather research and capacity building pilot plant has been equipped with state of the art machinery and the operationalization of the same is in progress. The institute also continued with the development of the Research, Technology and Innovation laboratories and related infrastructure at Nairobi South B which stood at 60% completion rate at the close of the financial year.

(b) Leather Sector programme

During the 2015/2016 financial year, the Institute procured State of the art leather research and processing equipment, which is currently being installed at the newly constructed KIRDI Western Region Centre. The institute also continued to provide common manufacturing services in Leather Processing and Leather Goods Production to MSMEs at The Leather Development Centre at KIRDI South C campus.



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(c) Agro-processing programme

During the 2015/2016 financial year the Institute supported the operations of six (6) agro-processing pilot plants. These include: Kisii Banana Processing Pilot Plant in Kisii County, Eldoret Fruit Processing Pilot Plant in UasinGichu County, Migori Soya Bean Processing Pilot plant in Migori County, Malakisi Soya Bean processing pilot plant in Bungoma county, Chemical Engineering Pilot Plant in KIRDI south C campus and Mushroom Spawn Production Pilot Plant at KIRDI South 'C' campus. These Agro-processing pilot plants are means of transferring value addition technologies through training and capacity building, business and technology incubation and provision of common manufacturing facilities.

(d) Capacity Building Programme

During the 2015/2016 financial year the Institute provided capacity building opportunities to 550 MSMEs through training, common manufacturing services, business and technology incubation, and laboratory testing services. These services enable MSMEs gain the necessary technical and business skills while having access to production machinery and equipment that would otherwise be too costly for them. The Institute also supported 16 MSMEs products to achieve KEBS quality standardization mark and therefore enabling the products to be accessed in domestic and export markets.

(e) Research, Technology and Innovation Programme

Core to the Institute's mandate is to undertake Research, Technology and Innovation to generate new technologies and products. This is implemented through the following divisions; Energy resources; Environment; Chemical engineering; Food Technology; ICT; Leather Technology; Textile Technology; Mechanical Engineering; Electrical Engineering and; Ceramics and Building materials. During the year under review the Institute completed 17 Research, Technology and Innovation projects resulting to production of 50 scientific publications, filing of 8 Intellectual properties and development and transfer of 12 technologies.

Signature:  Date: 5/05/2017

Acting Director: ENG. JOSEPH K. KAMAU

KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)

STATEMENT ON CORPORATE GOVERNANCE FOR THE YEAR ENDED 30 JUNE 2016

The Board and management of KIRDI are committed to maintaining the highest standards of corporate governance. This statement describes KIRDI's governance principles and practices. The institute's corporate values and ethics are entrenched in our strategic and Institutional objectives and are focused on transforming and accelerating growth in value for the benefit of all institute's stakeholders.

The Board Role

The Board of KIRDI is collectively responsible for the long term success of the Institute. Its role is to essentially provide leadership, oversee management and ensure that the Institute provides its stakeholders with a balanced and understandable assessment of the Institute's current position and prospects. The Board's leadership responsibilities involve working with management to set corporate values and to develop strategy; including deciding the risks it is prepared to take in pursuing its strategic objectives. Its oversight responsibilities involve it in providing constructive challenge to the management team in relation to operational aspects of the Institute, including approval of budgets, and probing whether risk management and internal controls are sound. Its responsibility to ensure that accurate, timely and understandable information is provided about the Institute is not only focused on the contents of the Annual Report, and other statements but also in deciding whether it is appropriate at any given time to make a statement to the stakeholders, as well as in communications with regulators or in respect of other statutory obligations.

Composition of the BOD

The Board currently consists of one executive and ten non-executive Directors. The composition of the Board and brief biographies of the Directors, which highlight the range of experience they bring to the Board as set out on pages viii to xi.

Board Meetings

During the year ended 30th June 2016 , the Board held scheduled meetings as follows; Three full board, Two RTI committee meetings, Two finance and special projects committee meetings, Two risk and audit committee meetings and Six HRA committee meetings. On top of that the board held four special full board meetings. Individual attendance at these meetings is set out in the table below. A schedule of Board and Committee meetings is circulated to the Board in advance of the financial year.



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2015/2016 BOARD AND BOARD COMMITTEES MEMBERSHIP AND ATTENDANCE

	Director	Classification	Designation	Status	Full Board	RTI	F&SP	Audit	HRA	SBM
1	Dr Nathan Psiwa	Non Executive	Chairman	Serving	3					4
2	Prof Jacob O Midiwo	Non Executive	Director	Term expired on 31/08/15					1	
3	Prof C Gathu Nyagah	Non Executive	Chairperson Audit	Appointed on 17/04/2015	3	2		2	1	3
4	Prof Tuikong Serem	Non Executive	Chairperson RTI	Re-appointed on 09/11/2015	2	2	2			4
5	Nancy Muya	Non Executive	Director	Serving	1	2	2		1	1
6	Margaret Onyimbo	Non Executive	Director	Serving	1	1			1	3
7	David M Gichuhi	Non Executive	Director	Serving					1	
8	James K Wangombe	Non Executive	Director	Serving						1
9	Dr David M Njubi	Non Executive	Director	Serving	3	2			5	4
10	Ahmed Abdi	Non Executive	Chairperson F&SP	Appointed on 09/11/2015	3		2		6	4
11	Nyawira Njeru	Non Executive	Chairperson HRA	Appointed on 09/11/2015	3			1	6	3
12	Christopher Kinoti	Non Executive	Director	Appointed on 09/11/2015	3			2	6	4
13	Martin S O Gumo	Non Executive	Director	Appointed on 23/2/2016	1			1		
14	Dr. M Charles Moturi	Executive	Secretary	Retired on 30/11/2015					1	
15	Eng Joseph Kamau	Executive	Secretary	Appointed on 3rd Dec 2015	2		1		3	4

Composition of Board Committees

The composition and mandate of the board committees is as below;

Research Technology and innovation Committee

The members of the committee were:
 Prof. Tuikong D.K. Serem-Chair RTI Committee
 Prof. Christopher Nyagah
 Dr. David Njubi
 Ms. Nancy Muya
 Mr. Martin S.O. Gumo
 Eng. Joseph Kamau

KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)

It had a responsibility to oversee the institutes research project plans, Technology and Research. It also reviews projects proposals. The committee has four scheduled meetings each year and held two meetings during the year.

Finance and Special Projects Committee

The members of the committee were:
Mr. Ahmed Muhumed Abdi- Chair Finance committee
Prof. Tuikong D.K. Serem
Ms. Nancy Muya
Eng. Joseph Kamau

This Committee had oversight on all financial issues including budgets, financial reporting process and controls, and procurement. It also reviews proposals for capital developments. In addition the committee appraises capital budgets for recommendation to the Board.

The committee has four scheduled meetings each year and held two meeting during the year.

Risk and Audit Committee

Its primary responsibilities are to assist the Board in ensuring integrity of the Institute financial statements, review the Institute internal control systems, monitor and review the effectiveness of the internal audit function, and ensuring the Institute compliance with legal and regulatory requirements. It has authority to conduct or authorize investigations into any matters within its scope of responsibility.

The Audit Committee regularly reports to the Board about committee activities and issues that arise with respect to the quality or integrity of the Institute financial statements, compliance with legal requirements, performance and independence of the Institute Statement of Corporate Governance.

The Committee meets at least four times a year and held two meeting during the year.

The members of the Committee were:

Prof. Christopher G. Nyagah-Chair audit committee
Ms. Nyawira Njeru



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Mr. Christopher Kinoti Nkang'i
Mr. Martin S.O. Gumo

Human Resources and Administration Committee

The Committee has four scheduled meetings during the year and held six meetings during the year. It's primary role is to support the Institutes strategic plan of ensuring that there is an empowered, motivated and productive workforce in a 'one Institute one culture' environment. Further, it will recommend the remuneration for non-executive directors, appraise the performance of senior management and determine their remuneration as well as establish the overall staff remuneration budget.

The committee also ensures implementation and compliance with the Human Resources Policies and Procedures and recommend to the Board relevant reviews.

The Members of the Committee were:

Ms. Nyawira Njeru -Chair HR&A Committee
Mr. Ahmed Muhumed Abdi
Mr. Christopher Kinoti Nkang'i
Prof. Jacob Ogweni Midiwo (retired on 31st August 2015)
Prof. Christopher G. Nyagah
Dr. David Njubi
Mr. David Gichuhi
Ms. Nancy Muya
Mrs. Margaret Onyimbo
Eng. Joseph Kamau

Directors' Remunerations.

Details of remuneration paid to the Directors are set out in the Remuneration Report on page12.

Risk Management and Internal Control

The Board is responsible for the Institute system of risk management and internal control, which is designed to manage rather than eliminate the risk of failure to achieve Institutes objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. The Board has delegated responsibility for the ongoing monitoring of the effectiveness of this system to the Risk and Audit Committee. The Board receives regular reports from the Chairman of the Risk and Audit Committee on its activities during the year and in addition has considered a report from the Audit

KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)

Committee on the conduct of and the findings and agreed actions from the annual assessment of risk management and internal control.

Board Performance Evaluation

Under the guidelines issued by the Ministry of Industrialization Board charter. The Board is responsible for ensuring that a rigorous evaluation is carried out of its performance, and that of its committees and individual directors. The evaluation is conducted annually and the results of the evaluation are provided to the Ministry of Industrialization and office of the President on Performance contracting.

Institutes Conduct Guidelines

The Guidelines set out the KIRDI's commitment to the highest standards of integrity and honesty. They have been circulated to employees across the Institute and are also available on the Institute's website www.kirdi.go.ke. A range of measures were developed to ensure that employees in the Institute remain aware of the Guidelines and of the general need to ensure that all the institute activities are conducted in a compliant and ethical manner.

Ethical Policies

The values of the Institute are Customer focus, Innovativeness and creativity, Integrity and professionalism, Quality, Partnerships and teamwork and Environmental Protection. The Board carries out its legal duties in accordance with these values and having appropriate regard to the interests of the KIRDI's stakeholders. Policies and codes of conduct have been established by the Board and management to support the Institute's objectives, vision and values.

Statement of Professional Practice

The Institute's code of ethics, known as the KIRDI Code of Conduct, sets standards of behavior required of all employees and Directors including:

- ✓ To act properly and efficiently in pursuing the objectives of the Institute;
- ✓ To avoid situations which may give rise to a conflict of interest;
- ✓ To know and adhere to the Institute's Equal Employment Opportunity policy and programs;
- ✓ To maintain confidentiality in the affairs of the Institute and its stakeholders; and
- ✓ To be absolutely honest in all professional activities.



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These standards are regularly communicated to the Institutes staff.

Going Concern

The Institute's activities, together with the factors likely to affect its future development, performance and position are set out in the Report of the Chief Executive's officer on pages xvi to xvii. The financial position of the Institute, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 1 to 20.

Having assessed the relevant operational risks, the Directors believe that the Institute is well placed to manage its operational risks successfully. The Directors have a reasonable expectation that the Institute has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Workplace Responsibilities, Behaviors and Compliance

The Institute is strongly committed to maintaining an ethical workplace and to complying with its legal and ethical responsibilities. The Institute has a number of policies relating to workplace responsibilities, behaviors and compliance that apply to and must be observed by staff.

The Institute has a system in place which allows staff to report (and remain anonymous if they wish) suspected fraud or corrupt, unlawful or improper conduct.

Corporate Social Responsibility Statement

At KIRDI, we are committed to conducting our business in a socially responsible and ethical manner. The institute recognizes its responsibility to contribute positively to the community that supports it. Below are a few examples of how the Institute and its staff have shown their commitment to practice responsible corporate behavior.

I. Working Environment

KIRDI employees are one of our most important assets. The institute is proud to provide a work environment where employees are appreciated, valued and given regular feedback. All staff work in an open space, promoting an 'open door' policy for concerns, thoughts and feedback for staff. Staff members are promoted based on merits and skill and are not discriminated based on age, color, and creed or relationship orientation.

KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)

The Institute recognizes parental and family obligations of the employees and ensure that all staff members are supported by being flexible with their hours, or allowing them personal time on short notice.

II. KIRDI is customer service believer!

KIRDI nurtures our relationships with customers based on quality products, honesty and extraordinary turnaround. We are excited to work closely with every one of our customer's in areas such as soap making, Food processing, honey processing among others.

III. Environment

The institute has a separate environmental policy statement clarifying its commitment to delivering a net positive impact on the environment through its environment divisions.

IV. Compliance

KIRDI is conscious of its obligations to comply with all relevant legislation affecting its operations. It has implemented compliance policies, procedures and programs, including an education and training program for employees on areas of law relevant to their area of expertise. All other compliance matters are reported to and monitored by the Audit and Risk Management Committee

V. Fair Practices

KIRDI ensures proper processes for tendering of services are conducted. Employees are educated about the laws to this end. They are required to deal with stakeholders honestly and at arm's length.



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KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2016 which show the state of the Institute's affairs.

Principal activities

The principal activity of the Institute is to undertake Industrial Research Technology and Innovation and disseminate findings that will have a positive impact on the national development.

Results

The results of the entity for the year ended June 30, 2016 are set out on page 1 of this report.

Directors

The members of the Board of Directors who served during the year are shown on page on viii.

Auditors

The Auditor General is responsible for the statutory audit of the Institute in accordance with the provisions of Public Finance Management (PFM) Act, 2012.

By Order of the Board

Eng. Joseph K. Kamau
Ag.CEO and Secretary to the Board

Date: 5/05/2017

KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Public Finance Management Act, 2012 and the State Corporations Act, require the Directors to prepare financial statements in respect of the Institute, which give a true and fair view of the state of affairs of the Institute at the end of the financial year/period and the operating results of the Institute for that year/period. The Directors are also required to ensure that the Institute keeps proper accounting records which disclose with reasonable accuracy the financial position of the Institute. The Directors are also responsible for safeguarding the assets of the Institute.

The Directors are responsible for the preparation and presentation of the Institute's financial statements, which give a true and fair view of the state of affairs of the Institute for and as at the end of the financial year (period) ended on June 30, 2016. 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 Institute; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Institute's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Reporting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Institute's financial statements give a true and fair view of the state of Institute's transactions during the financial year ended June 30th, 2016, and of the Institute's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Institute, which have been relied upon in the preparation of the Institute's financial statements as well as the adequacy of the systems of internal financial control.




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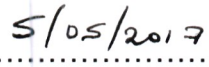
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Nothing has come to the attention of the Directors to indicate that the Institute will not remain a going concern for at least the next twelve months from the date of this statement.

Signature:  Date: 
Chairperson: DR. NATHAN PSIWA

Signature:  Date: 
Ag. Director / CEO: Eng. Joseph K. Kamau



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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Industrial Research and Development Institute set out on pages 1 to 20, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of changes in net assets, statement of cash flows, 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.

Management's Responsibility for the Financial Statements

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 such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor-General's Responsibility

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

An audit involves performing procedures to obtain 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

Report of the Auditor-General on the Financial Statements of Kenya Industrial Research and Development Institute for the year ended 30 June 2016

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute'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 qualified audit opinion.

Basis for Qualified Opinion

1. Property, Plant and Equipment

The statement of financial position reflects a balance Kshs.4,040,355,420 under property, plant and equipment as at 30 June 2016. However, the last valuation for these assets was conducted in 1980 over 37 years ago and this contravenes International Accounting Standard No.16 which stipulates that property, plant and equipment should be revalued after every five years.

Consequently, it has not been possible to confirm that the property, plant and equipment balance of Kshs.4,040,355,420 as at 30 June 2016 is fairly stated.

2. Account Receivables

2.1. Long Outstanding Balances

The account receivables balance of Kshs.12,539,941 includes Kshs.2,460,000 being the Institute's reimbursement claims lodged with the National Industrial Training Authority (NITA) in respect of industrial attachment services rendered for the Authority. The claims have been outstanding for a considerable long time without evidence of effort initiated to recover them. The Institute is likely to lose funds unless proper debt collection mechanisms are put in place.

2.2. Non-Recovery of Excess Medical Expenditure

Included in the account receivables balance of Kshs.12,539,941 is Kshs.2,877,953 being excess medical expenditure which is supposed to be recovered from the concerned staff. Out of this balance, an amount of Kshs.1,581,599 relates to officers who have passed on. The accounting policies disclosed in the financial statements does not give clear guidance provisions to be made in case of death of staff members. In addition, it was noted that in some instances, the rate of recovery of the expenditure was very low compared to the outstanding amounts with some having not been recovered at all.

In the circumstances, the recoverability of the account receivables balance of Kshs.12,539,941 is doubtful.

3. Procurement of Leather Processing and Production Machinery

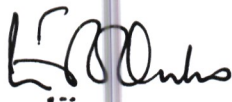
During the year under review, the Institute entered into a contract agreement with a local company for the supply, installation, training and commissioning of leather processing and production machinery. Review of the procurement process revealed that the company had partnered with another company from Italy in a joint venture to execute the contract but contrary to Section 2.1.3(i) of the contract agreement only the first company signed the contract on 27 March 2015.

Further, contrary to Section 2.1.3(ii) of the contract agreement, both companies did not submit audited accounts for the previous three (3) years as required by the bidding requirements on financial capability. In particular, the first company did not meet that mandatory requirement considering that it was registered on 9 May 2012 and therefore was at the time of tendering yet to attain three years old since it was incorporated. Non-adherence to procurement procedures may lead to unnecessary legal challenges by dissatisfied bidders leading to delays in project implementation.

Whereas the leather equipment were destined for the Kisumu regional offices, an audit verification at the station in October 2016, revealed that some of the machines though delivered, were not installed and commissioned mainly due to lack of appropriate space. It was not clear why the Institute went ahead to procure and purchase the machines without having arranged for adequate and appropriate space for their installation. Failure to have the machinery installed in a secure place could result to vandalism and breakdowns in addition to withholding vital services envisaged at the time of inception of the project.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Kenya Industrial Development and Research Institute as at 30 June 2016, 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 Science, Technology and Innovation Act, 2013 of Laws of Kenya.



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

Nairobi

22 August 2017



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KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30TH JUNE 2016

	NOTES	2015/2016 KSHS.	2014/2015 KSHS. Restated
REVENUE			
Income from non-exchange transactions			
Re-Current Grants	2	601,713,100	521,824,000
Development grants	3	192,511,617	205,790,820
Deferred grant income	4	88,019,510	*39,956,121
		882,244,227	767,570,941
Income from exchange transactions			
Rendering of services	5	26,840,337	17,706,483
Others	6	0	793,927
		26,840,337	18,500,410
		909,084,564	786,071,351
EXPENSES			
Staff Cost	7	491,171,731	483,251,688
Board Expenses, conferences & seminars	8	15,849,662	17,265,730
Administrative Expense	9	252,803,236	* 245,840,315
Research feasibility studies and projects	10	45,998,702	42,353,417
Depreciation Expenses	11	88,019,510	39,956,121
Decrease in stock	15	6,660,537	4,150,284
		900,503,378	832,817,555
Total Expenditure		900,503,378	832,817,555
SURPLUS/(DEFICIT) FOR THE YEAR		8,581,186	* (46,746,204)


*Restated figures has asterisk

KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)


STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2016

ASSETS	NOTES	2015/2016 KSH	2014/2015 KSH Restated
NON CURRENT ASSETS			
Property, Plant and Equipment	11	4,040,355,420	3,377,056,464
R & D projects	12	132,395,771	132,395,771
Total		4,172,751,191	3,509,452,235
CURRENT ASSETS			
Accounts Receivable	13	12,539,941	6,378,357
Cash and Cash Equivalents	14	247,496,828	401,442,873
Stores and inventories	15	7,322,910	13,983,447
Total		267,359,679	421,804,677
TOTAL ASSETS		4,440,110,870	3,931,256,912
ACCUMULATED FUNDS & LIABILITIES			
Capital funds G.O.K	16	3,921,921,909	3,230,868,554
Revenue Reserves	17	200,319,991	191,738,805
Accumulated Funds		4,122,241,900	3,422,607,359
NON-CURRENT LIABILITIES			
Retentions	18	222,091,256	*249,845,655
CURRENT LIABILITIES			
Accounts payable	19	82,201,307	*245,927,491
Unused Project Funds	20	11,626,407	11,626,407
Provisions	21	1,950,000	1,250,000
Total		95,777,714	*258,803,898
TOTAL ACCUMULATED FUNDS & LIABILITIES		4,440,110,870	3,931,256,912

*Restated figures has asterisk

Signature 
Chairperson: Dr. Nathan K. Psiwa

Date: 5/05/2017

Signature 
Acting Director: Eng. Joseph Kamau

Date: 5/05/2017



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KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30TH JUNE 2016

	Capital Funds Ksh	Revenue Reserve Ksh	Total Ksh
As at 30th June 2014	1,976,370,474	Restated 238,485,009	Restated 2,214,855,483
G.O.K Grants (net increase)	1,294,209,180		1,294,209,180
Surplus/(Deficit) for the year		*(46,746,204)	*(46,746,204)
Capital Assets-donation	3,823,886	0	3,823,886
Capital assets-net decrease	(3,578,865)	0	(3,578,865)
Amortization	(39,956,121)	0	(39,956,121)
As at 30th June 2015	3,230,868,554	191,738,805	3,422,607,359
G.O.K Grants (net increase)	779,072,865		779,072,865
Amortization	(88,019,510)		(88,019,510)
Surplus/(Deficit) for the year		8,581,186	8,581,186
As at 30th June 2016	3,921,921,909	200,319,991	4,122,241,900

*Restated figures has asterisk

KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30TH JUNE 2016

	Note	2015/2016 KSHS.	2014/2015 Restated KSH.
CASH FLOW FROM OPERATING ACTIVITIES			
Operating surplus/(deficit)		8,581,186	*(46,746,204)
Adjustment for items not involving movements of cash:			
Deferred grant income	4	(88,019,510)	*(39,956,121)
Depreciation expenses	11	88,019,510	39,956,121
Surplus/Deficits before working capital changes		8,581,186	(46,746,204)
WORKING CAPITAL CHANGES			
Decrease in inventories		6,660,537	3,356,357
Accounts receivable		(6,161,584)	178,340,832
Charge for provisions		700,000	20,000
Creditors and Accruals		(191,480,583)	59,013,060
Net Changes in Working capital		(190,281,630)	240,730,249
Net cash flow generated from Operating Activities		(181,700,444)	193,984,045
Cash Flow in Investing Activities:			
Additions to Property, plant and Equipment		(751,318,466)	(1,091,605,170)
Cash flow from financing:			
Capital grants		779,072,865	1,294,209,180
Changes from Donor project funding		0	(5,167,357)
Net cash generated from financing activities		779,072,865	1,289,041,823
Net increase/ decrease in cash and cash equivalents		(153,946,045)	391,420,698
Cash at the beginning of the year		401,442,873	10,022,175
Cash at the end of the year	14	247,496,828	401,442,873
*Restated figures has asterisk			

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**KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)****STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS - RECURRENT
BUDGET 2015/2016**

ITEM	VOTE HEAD	Approved Estimates	Actual received	Variance	%
3540400	Appropriation in Aid Receipts from the Sale of Non-Produced Asset Collected as AIA	20,000,000	26,840,337	6,840,337	34
1330300	Recurrent grants	597,624,000	601,713,100	4,089,100	1
	Total income	617,624,000	628,553,437	10,929,437	2

ITEM	VOTE HEAD	Approved budget	Actual expenditure	Variance	%
		Kshs	Kshs	Kshs	
2110100	Basic Salaries - Permanent Employees	257,251,545	242,831,251	14,420,294	6
2110200	Basic Wages - Temporary Employees	12,560,000	11,907,271	652,729	5
2110300	Personal Allowance Paid as Part of Salary	142,550,000	138,878,896	3,671,104	3
2110400	Personal Allowance Paid as Reimbursements	8,600,000	4,074,543	4,525,457	53
2120100	Employer Contributions to Compulsory National Social Security Schemes	63,525,500	51,817,114	11,708,386	18
	Sub-total	484,487,045	449,509,075	34,977,970	7
2210100	Utilities, Supplies and Services	12,000,000	14,226,812	(2,226,812)	19
2210200	Communication Supplies and Services	9,000,000	15,936,004	(6,936,004)	77
2210300	Domestic Travel and Subsistence and Other Transport costs	8,000,000	7,733,693	266,307	3
2210400	Foreign Travel and Subsistence and Other Transport Costs	8,000,000	10,483,858	(2,483,858)	31
2210500	Printing, Advertising and Information Supplies and Services	6,000,000	7,347,409	(1,347,409)	22
2210600	Rental of Produced Assets	1,500,000	2,269,592	(769,592)	51
2210700	Training Expenses (including capacity building)	6,000,000	9,440,434	(3,440,434)	57
2210800	Hospitality Supplies and Services	15,000,000	15,425,439	(425,439)	3
2210900	Insurance Costs	33,000,000	24,268,531	8,731,469	26
2211000	Specialised Materials and Supplies	3,000,000	7,006,477	(4,006,477)	134
2211100	Office and General Supplies and Services	5,036,955	9,747,484	(4,710,529)	94
2211200	Fuel Oil and Lubricants	6,000,000	2,444,402	3,555,598	59
2211300	Other Operating Expenses	13,000,000	22,595,680	(9,595,680)	74
2220100	Routine Maintenance - Vehicles and Other Transport Equip.	3,600,000	5,342,314	(1,742,314)	48
2220200	Routine Maintenance - Other Assets	4,000,000	8,486,799	(4,486,799)	112
3111400	Research, Feasibility Studies, Preparation, design & Supervision	-	347,711	(347,711)	-
	Sub-total	133,136,955	163,102,639	(29,965,684)	23
	Grand total	617,624,000	612,611,714	5,012,286	1

KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS -
DEVELOPMENT BUDGET 2015/2016**

ITEM	VOTE HEAD	Approved Budget	Actual Received	Variance	%
1330304	Development grants	1,237,862,658	971,584,482	266,278,176	22
ITEM	VOTE HEAD	Approved Budget	Actual expenditure Expenditure	Variance	%
221000	Purchase of specialised materials and supplies	15,000,000	15,587,949	(587,949)	4
3110200	Construction of Buildings	700,000,000	623,705,162	76,294,838	11
3110300	Refurbishment of Building	10,000,000	-	10,000,000	100
3110500	Construction of civil works	10,000,000	-	10,000,000	100
3110701	Purchase of Motor vehicles	13,000,000	-	13,000,000	100
3111000	Purchase of Furniture & General Equipment	25,000,000	26,982,278	(1,982,278)	8
3111100	Purchase of specialized equipment plant and machinery	355,000,000	373,045,463	(18,045,463)	5
3111200	Rehabilitation and Renovation of plant Equipment/machinery	16,862,658	17,260,817	(398,159)	2
3111400	Research, Feasibility Studies, Preparation, design & Supervision	93,000,000	132,680,573	(39,680,573)	43
	Total	1,237,862,658	1,189,262,242	48,600,416	4

KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)

STATEMENT OF RECONCILIATION BETWEEN THE COMPARISON OF BUDGETED AND ACTUAL AMOUNTS AND STATEMENT OF FINANCIAL PERFORMANCE AS AT 30TH JUNE 2016

RECURRENT BUDGET

<u>PARTICULARS</u>	<u>Ksh AMOUNT</u>	<u>Ksh AMOUNT</u>
Surplus as per Statement of Comparisons of budget and actual amounts		15,941,723
Less Non Cash expenditure included in the SFP not in the SCBA:		
Provision for audit fees	(700,000)	
Decrease in stock-Amortization	<u>(6,660,537)</u>	<u>(7,360,537)</u>
Deficit as per Statement of financial performance		8,581,186

DEVELOPMENT BUDGET

<u>PARTICULARS</u>	<u>AMOUNT (Ksh)</u>
Total expenditure as per Development budget	1,189,262,242
Less operating expenditure charged to development budget (Note 28)	<u>(192,511,617)</u>
Development funds utilised in financing capital assets	996,750,625
Less Amount paid out for retentions-capitalised	(27,754,399)
Less Contractors dues paid out	(217,677,760)
Increase in net assets as per statement of financial position (Note 11)	751,318,466

Variances

- (a) The over-expenditure (negative variances) reflected in recurrent and development budget vote-lines was due to under-budgeting of the various programmes at the level of activities that were based on original budget.
- (b) The under-expenditure (positive variances) recorded in various votes both in recurrent and development budgets was as a result of shift in expenditure priorities by limiting spending on those items after the budget-cut.

KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

Notes to the Accounts

1. Principal accounting policies

Basis of Preparation

- (a) The financial Statements have been prepared in accordance with International Public Sector Reporting standards (IPSAS) under the historical cost convention except where otherwise stated in the Accounting policies below. In compliance with Public Finance Management Act 2014, the established Public sector accounting standards Board, PSASB published the Standards which took effect for the financial year ended 30th June 2014. The Financial Statements are prepared on accrual basis. Where necessary, comparative figures for the previous financial year have been reconfigured to conform to required changes in presentation.

(b) Currency

The Financial Statements are presented in Kenya Shillings which is the functional and reporting currency.

(c) Property, Plant and Equipment

The fixed assets are stated at cost or as revalued on existing use basis from when the institute started self accounting, i.e. 1st July, 1980.

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Gains and losses on disposal of property, plant and Equipment are determined by reference to their carrying amount in determining operating profit. On disposal of revalued assets, the revaluation surplus relating to that asset are transferred to retained earnings.

(d) Depreciation

Provision is made for depreciation on the straight-line method designed to write off the original cost or valuation of fixed assets other than land, and work in progress over the actual life of the asset. A whole year's depreciation is charged on assets acquired



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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

nine months or more prior to the closure of the financial year and none to those acquired three months or less to the end of the financial year. The annual rates for this purpose are: -

1. Building	2%				
2. Machines	12.5%	or	as	per	valuer's recommendation
3. Motor vehicles	25%				
4. Office furniture & equipment ...	12.5%	or	as	per	valuer's recommendation
5. Computers	30%				

(e) Revenue

The major source of income of this institute are the grants from the Government and the nominal charges of analysis fees from industrial manufacturers, potential entrepreneurs who need laboratory reports on their products and charge services offered to micro, small and medium enterprises. Income is recognized on an accrual basis.

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.

(f) Bad Debts

Bad debts are written-off after all efforts to collect them have been exhausted.

(g) Stores and Inventory

Stock is valued at cost with the exception of donations which is reported at revaluation. Loose tools acquired as donation are amortized annually at a uniform rate over the period of their expected useful life.

KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

(h) Retirement Benefits/Gratuity

The Institute operates a Retirement Benefit Scheme which is managed by Trustee Board under the Retirement Benefits Regulations (RBA) regulations. Further monthly remittances are made to a custodian for staff serving on Contract Terms which is eventually paid as gratuity at the expiry of the Contract.

(i) Government grants

Recurrent and Development grants have been accounted for in the Statement of Financial Performance in the year received. Capital grants are accounted for over the periods necessary to match them with the related costs which they are intended to compensate on a systematic basis.

(j) Accounts receivable

Accounts receivable are stated at anticipated realizable value.

(k) Accounts payable

Accounts payable are stated at nominal value.

(l) Budget information

The annual budget is prepared on accrual basis, and all planned costs and income are presented in separate statements as recurrent and development budgets to determine the needs of the Institute.

The basis difference would require reconciliation between actual and comparable amounts and the amount presented as separate additional financial statement in the statement of comparison of budget and actual amounts.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank. Bank account balances includes amounts held at commercial banks at the end of the financial year.



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KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

Note 2: Recurrent grants

The Institute receives grants from exchequer for personal emoluments, operations and maintenance costs.

Note 3 Development grants

These represents grants received from the exchequer to finance acquisition of capital assets and other expenses related to research and development activities.

Apportionment is made on Development grants based on the nature of commitment that is acquisition of assets and the recurrent expenditure on related expense for R & D activities based on budgetary allocation. The total amount received for the year was Ksh.971,584,482 out of which Ksh.192,511,617 has been attributed to the statement of financial performance. This relates to R & D expenses incurred under development vote that are non-capital in nature.

Note 4: Deferred grant income

Government grants and donations related to the acquisition of capital assets are recognised as deferred grant income in the statement of financial performance on a systematic basis over the period in which depreciation of related assets are charged.

Note5: Rendering of services

	2015/2016	2014/2015
	KSHS.	KSHS
Rents & sundry revenue	15,607,544	9,618,154
Service fees	<u>11,232,793</u>	<u>8,088,329</u>
Total	<u>26,840,337</u>	<u>17,706,483</u>

Note 6: Other Gains

In the previous financial year there was an increase in the value of stores general inventory by Ksh 793,927 whereas in the year under review there was no gain realised. The decrease in stock value is expensed (Note 15).



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KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

Note 7. Staff Costs	2015/2016	2014/2015
	KSHS	KSHS
Basic salary	254,738,522	250,044,233
House allowance	84,729,751	86,979,318
Other personal allowance	36,492,562	37,545,104
Medical Allowance	12,269,583	12,666,882
Medical Expenses	18,447,359	20,196,447
Passage and Leave	5,387,000	5,570,846
Training expenses	21,380,430	13,052,285
Group life, GPA insurance	1,834,867	3,871,710
Fees commission and Honoraria	4,074,543	1,947,859
Gratuity, Pension and NSSF	51,817,114	51,377,004
TOTAL	491,171,731	483,251,688

Note 8: Board expenses, conferences & seminars

	2015/2016	2014/2015
	KSH	KSH
Sitting allowances	3,105,000	9,339,283
Travel costs	3,608,058	-
Hospitality & insurance costs	2,860,742	871,647
Seminars	1,724,862	-
Daily subsistence	3,591,000	-
Remuneration & honoraria	960,000	7,054,800
	15,849,662	17,265,730

In the prior year, Sitting allowance together with Daily subsistence allowance and travel costs were combined.



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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

Note 9: Administrative Costs	2015/2016	2014/2015 (Restated)
	KSH.	KSHS.
Transport operation expenses	2,444,402	4,757,248
Postal and telecom expenses	11,737,806	9,396,122
Telephone expenses	2,132,760	1,419,654
Official entertainment	12,748,045	16,299,527
Electricity	10,102,432	6,677,932
Gas purchase	4,124,380	4,447,907
Travelling & subsistence	60,974,242	*56,245,147
Water and conservancy	2,065,438	2,485,728
Publishing and printing	11,934,663	14,255,718
Purchase of consumables	6,579,936	9,943,060
Uniform and clothing	867,332	0
Library expenses	7,651,858	6,320,665
Purchase of stationery	13,652,115	13,087,326
Advertising and publicity	7,347,409	7,223,733
Show expenses and market research	6,891,415	3,464,629
Rent and rate(non-residential)	2,269,592	1,894,713
Computer expenses	14,638,649	13,503,624
Misc. and other charges	1,519,598	1,476,666
Contribution to other bodies	2,468,971	1,713,867
Contracted guards & cleaning services	8,514,306	11,214,268
Provision for audit fee	700,000	600,000
Laboratory chemicals	12,108,188	12,959,396
Contracted professional services	2,334,058	1,722,406
Refined fuels & lubricants-production	0	47,396
Maint. of office, furniture & equip.	12,343,629	12,569,652
Maint. of build. & stations-non res.	8,486,799	8,143,203
Maint. of plant machinery & equip.	17,260,817	18,206,780
Maint. exp-motor vehicles	5,342,314	2,300,748
Insurance of property	3,562,082	* 3,463,200
TOTAL	<u>252,803,236</u>	<u>* 245,840,315</u>

*Restated figures has asterisk

KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

Note 10: R & D Expenses

	2015/2016	2014/2015
	KSHS.	KSHS.
Research feasibility studies & projects	45,998,702	42,353,417

The expenditure on R& D projects amounting Ksh.45,998,702 includes travel expenses for the year is related to feasibility studies, project preparation , designs and supervision.

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**KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016****Note 11: FIXED ASSETS SCHEDULE**

	LAND	WORK IN PROGRESS	BUILDINGS	MACHINERY & EQUIPMENT	MOTOR VEHICLES	FURNITURE & FITTINGS	COMPUTERS & EQUIPMENT	TOTAL
	SHS	SHS	SHS	SHS	SHS	SHS	SHS	SHS
VALUE/COST as at 1/7/2015	26,865,000	2,174,507,551	1,139,823,616	223,952,250	76,180,232	31,654,515	46,450,728	3,719,433,892
Additions during the year	-	374,498,892	-	376,819,574	-	-	-	751,318,466
Transfer/ reclassification	-	-	(51,602,602)	51,602,602	-	-	-	0
Disposal adjust.	-	-	-	-	(66,000)	-	-	(66,000)
TOTAL 30th June 2016	26,865,000	2,549,006,443	1,088,221,014	652,374,426	76,114,232	31,654,515	46,450,728	4,470,686,358
Depreciation for previous year	-	-	6,170,708	17,188,914	9,504,604	1,277,775	5,814,120	39,956,121
Accumulated Depreciation b/f	-	-	54,923,764	147,772,107	70,733,278	25,067,022	43,881,257	342,377,428
Eliminated on disposal	-	-	-	-	(66,000)	-	-	(66,000)
Depreciation for this year	-	-	21,764,420	57,569,364	5,446,954	1,456,616	1,782,156	88,019,510
Total Dep.	-	-	76,688,184	205,341,471	76,114,232	26,523,638	45,663,413	430,330,938
Net Book Value 30:06:2016	26,865,000	2,549,006,443	1,011,532,830	447,032,955	-	5,130,877	787,315	4,040,355,420
Net Book Value 30:06:2015	26,865,000	2,174,507,551	1,084,899,852	76,180,143	5,446,954	6,587,493	2,569,471	3,377,056,464

The capital work in progress relates mainly to ongoing RTI laboratories construction project in Nairobi.

An amount of Ksh..51,602,602 has been transferred from buildings being cost of equipment installation in the newly constructed RTI Laboratories in Kisumu that formed part of the main contract.

KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

Note 12 R & D Projects

These is composed of expenditure amounting Kshs.132,395,771 transferred from Development vote to R & D on recognition that R & D projects will generate future economic benefits.

The Institute intends to patent its research discoveries which includes prototype development, designs and pilot plants.

	2015/2016 KSHS.	2014/2015 KSHS.
Note 13		
Accounts Receivable		
National Industrial Training Authority	2,460,000	2,460,000
Traveling imprest (local)	184,100	0
Traveling imprest (overseas)	93,755	0
Temporary imprest	2,238,115	1,196,853
Salary advance	594,924	610,789
Excess medical	2,877,953	362,858
Plot scheme	133,719	133,719
Fuel deposit	366,000	366,000
Oxygen deposit	30,000	30,000
Hospital deposit	10,000	10,000
Electricity deposit-Kisumu	308,138	308,138
Electricity deposit-South C & Eldoret	50,000	50,000
Miscellaneous deposits a/c	3,193,237	850,000
TOTAL	12,539,941	6,378,357
Note 14		
Cash and Bank balance		
HQ(main Account)	53,351,256	1,045,796
LDC A/c	352,915	2,294,818
EDSC A/c	185,293	1,266,030
Danida BSPS cashbook	0	219,846
Kisumu imprest A/c	1,822,456	1,317,740
LSC A/c	1,962,574	2,476,944
BBK A/c	173,480,126	262,247,211
NIIC/Projects Account	16,342,208	816,768
Bank guarantee-NBK	0	129,757,720
TOTAL	247,496,828	401,442,873



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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

Note 15: Stores and Inventories

	2015/2016 KSHS.	2014/2015 KSHS.
General Stores	1,789,195	4,299,448
Loose tools	<u>5,533,715</u>	<u>9,683,999</u>
Total	<u>7,322,910</u>	<u>13,983,447</u>

Note 16: Capital funds G.O.K

The Ksh.3,921,921,909 stated as Capital funds is the net accumulation of Development releases going way back to 1980 when the Institute began self-Accounting.

Note 17: Revenue Reserves

These represent the Institute's accumulated funds Account as balances brought forward for revaluation reserves and the surplus/deficit arising from the income and expenditure account.

Note 18: Retentions

These are retention monies on bills settled for construction contracts which are held for more than a year pending projects completion and expiry of defects liability period.

	2015/2016 Kshs.	2014/2015 Kshs.
Retention balance at the beginning	249,845,655	151,548,354
Additions during the year	34,350,445	98,297,301
Amount paid	<u>(62,104,844)</u>	<u>0</u>
Closing balance	<u>222,091,256</u>	<u>249,845,655</u>

KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH
JUNE 2016**

	2015/2016 KSH	2014/2015 KSH
Note 19		
Accounts Payable		
Payroll deductions	5,130,470	3,417,878
Other Creditors	77,070,837	242,509,613
TOTAL	82,201,307	245,927,491
Note 20		
Project funds		
WIFIP hyacinth project	546,500	546,500
ATPS-ICT project	158,891	158,891
Horticultural ADB	55,803	55,803
GTZ-Mini-hydro project	84,813	84,813
DANIDA-Fish leather/Arc welding	7,628,315	7,628,315
KAPP/ ILRI-Mushroom project	3,062,175	3,062,175
Lake and sea resources	89,910	89,910
TOTAL	11,626,407	11,626,407
Note 21		
Provisions		
Provision for Audit fee	1,950,000	1,250,000

Note 22: Recurrent and Development expenditure

The expenditure is financed by both recurrent and development funds received from G.o.K.



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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

Note 23: Related party transactions

All budgetary dealings with the National Treasury are undertaken through the proxy of the parent ministry. Development and Recurrent grants for the year were channelled through the Ministry of Industry, Trade and Cooperatives on quarterly basis.

At the closure of the financial year there was a balance of Ksh 266,278,176 unreleased funds being part of the Development budgetary allocation. The National Treasury gave no indication to release the funds after the year end.

Note 24: Contingent liabilities

At the year-end there were no contingent liabilities and subsequent events foreseeable.

Note 25: Financial risk management

The Institute has no significant risk attributed to accounts receivable. Services offered to clients are primarily on cash basis. Advances and prepayments are managed within approved policy parameters.

Note 26: Restatements

Restated amounts in the prior year comparatives are attributed to the following changes in presentation:-

- a) Insurance expense and Travelling & subsistence have been included in the administrative costs which previously were stated separately (Note 9).
- b) Accumulated amount of retention money which was previously included in the accounts payable has been stated separately (Note 18).
- c) Recognition of deferred grant income arising from the amortization of capital funds (Note 4).

Note 27: Capital commitments

Authorised and contracted for is the proposed construction of RTI laboratories in Nairobi south B at a cost of Ksh.4,812,400,055.

KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH
JUNE 2016**

Note 28: Recurrent Expenditure charged to Development Vote-lines

<u>Particulars</u>	<u>Vote</u>	<u>Amount (Ksh)</u>
Domestic travel	Research feasibility studies and projects	23,138,281
Foreign travel	Research feasibility studies and projects	19,618,410
Printing and advertising	Research feasibility studies and projects	19,586,521
Training expenses	Research feasibility studies and projects	11,939,996
Hospitality supplies & services	Research feasibility studies and projects	12,748,045
Office and general supplies and services	Purchase of specialised material & supplies	15,587,949
Maintenance of furniture & office equipment	Purchase of furniture & general equipment	26,982,278
Maintenance of plant and machinery	Rehabilitation of equipment	17,260,817
Research feasibility studies and projects	Research feasibility studies and projects	45,649,320
Total		192,511,617



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PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Ref No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	The institute realized a deficit of Ksh 86,702,325 in its operations. Further the current liabilities exceeded current assets with a negative working capital of Ksh86,844,876.	<p>The financial deficit of Ksh 86,702,325 realised in the previous year had an inclusion of Depreciation and amortization charge totaling Ksh 44,106,405 which was a non-cash expense. Taking this into account, the actual net cash deficit was Ksh 42,595,920 which was a result of reduced funding for recurrent budget.</p> <p>The negative working capital was contributed by the inclusion of Ksh 249,845,655 in form of Retention money for ongoing construction projects in the current liabilities. It is projected that these medium term obligations shall be funded upon completion of the projects.</p>	Director/Board of Directors	Not Resolved	Continuous engagement with the National Treasury for budgetary enhancement

Signature.....

Date: 5/05/2017

Ag. Director /CEO

Signature.....

Date: 5/05/2017

Chairperson



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