

REPUBLIC OF KENYA



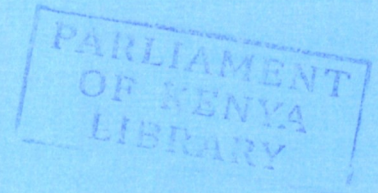
OFFICE OF THE AUDITOR-GENERAL

THE NATIONAL ASSEMBLY  
PAPERS LAID

DATE: 25 SEP 2019 Wednesday

TABLED BY: Majority Party Whip  
Hon. Benjamin Mutahi

BY: Hasmu Ahmed



**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

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

**FOR THE YEAR ENDED  
30 JUNE 2018**



**KIRDI**

*Your Industrial Technology Partner...*

**KENYA**

**VISION 2030**

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**KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30<sup>TH</sup>, 2018**

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Prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector Accounting Standard (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](http://www.kirdi.go.ke)  
Email: [dir@kirdi.go.ke](mailto:dir@kirdi.go.ke)

## **NAMES AND ACRONYMS**

<b>A in A</b>	Appropriation in Aid
<b>ADB</b>	Africa Development Bank
<b>ATPS</b>	Africa Technology Policy Studies Network
<b>DANIDA</b>	Danish Industrial Development Agency
<b>G.O.K</b>	Government of Kenya
<b>IFS</b>	International Foundation for Science
<b>KAPP</b>	Kenya Agricultural Productivity Project of KARI
<b>MOITC</b>	Ministry of Industry, Trade and Co-operatives
<b>NGAAF</b>	National Affirmative Action Fund
<b>N R F</b>	National Research Fund
<b>OTA</b>	Coffee Ochratoxin a project funded by European Union
<b>R &amp; D</b>	Research and Development
<b>R.T.I.</b>	Research, Technology and Innovation
<b>UNIDO</b>	United Nations Industrial Development Organization
<b>WIFIP</b>	Development of fertilizer from water hyacinth in Lake Region Project

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**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(KIRDI) is a statutory research organization established under the Science and Technology Act Cap 250, 1979 (now repealed and replaced by the Science, Technology and Innovation Act 2013).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 Industry, Trade and Co-operatives. 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 Ceramics. 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
- Legal services & Corporate Secretary

**(d) Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2018 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.Nicodemus Mutinda
	Deputy Director - Finance, Human Resource and Administration	Mr. William Maina Waweru
5	Assistant Director- Finance	Ms.Floice Mukabana
6	Assistant Director - Human Resource and Administration	Mr.Jairus Ombui
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 Institute's research project plans, Technology and Research. It also reviews projects proposals. Other members of the committee include Prof. Christopher G. Nyagah, Dr. David Njubi, Eng. Andrew Muigai, Mr. Stephen Odua 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, Eng. Andrew Muigai, Mr. Stephen Odua and Eng. Joseph K. Kamau.

**Risk and Audit Committee**

This committee consisted of four 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 recommendations therein. Other members of the committee include Ms.Nyawira Njeru, Mr. Christopher K. Nkang'i, Mr. Martin S. O. Gumo, and Eng. Joseph Kamau.

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**Human Resources and Administration Committee**

This committee consisted of six 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, Eng. Kennedy J. Wafukho, Mr. Martin S. O. Gumo 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  
KEBS SOUTH C, Popo Road  
NAIROBI, KENYA
  2. Barclays Bank of Kenya  
N I C Branch  
NAIROBI, KENYA
- (i) **Independent Auditors**  
Auditor General  
Kenya National Audit Office  
Anniversary Towers, University Way  
P.O. Box 30084  
GOP 00100  
NAIROBI, KENYA

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**THE BOARD OF DIRECTORS**

DIRECTOR	PROFILE
 <p><b>Hon. Lelelit Lati</b> Chairperson Board of Directors</p>	<p><i>Appointed on 6<sup>th</sup> June, 2018 for 3 years term</i></p> <p><b>Hon. Lelelit Lati (39)</b> holds an MBA from Brandeis University Massachusetts, USA; BSc. in Economics and Mathematics from St. Lawrence University, New York, USA. Previously a member of Parliament at the Kenya National Assembly (2013-2017) for Samburu West; Portfolio Manager, Sovereign Wealth at State Street Global Advisors, Boston MA USA (2006-2010).</p>
 <p><b>Dr. Nathan Kitio Psiwa</b> Chairperson Board of Directors</p>	<p><i>Appointed on 17<sup>th</sup> April, 2015 and served for three (3) years. His term ended on 16<sup>th</sup> April, 2018.</i></p> <p><b>Dr. Psiwa (51)</b> 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 Practitioners and Dentists Board, among others. He has held various positions in the Public Service and currently practices as a Consultant Orthodontist at The Nairobi Orthodontic and Dentistry Centre.</p>
 <p><b>Mr. Ahmed Muhumed Abdi</b> Member of the Board of Directors</p>	<p><i>Appointed on 9<sup>th</sup> November, 2015 for 3 years term which ended on 8<sup>th</sup> November 2018</i></p> <p><b>MR. ABDI (44)</b> holds LLB. Hons. IIUM from Malaysia and B.Ed (Eng. &amp; Literature) from Egerton University. He has over fourteen (15) years of experience in Development Work, Programme Management, Governance, Disaster Preparedness and Response working in various capacities for NGOs in liaison with Community Groups, International Humanitarian Organizations, Government Departments and UN Agencies as well as State Corporations undertaking different assignments.</p>



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	<p><i>Appointed on 9<sup>th</sup> November, 2015 for a 3 years term which ended on 8<sup>th</sup> November 2018.</i></p>
<p><b>Mr. Christopher K. Nkang'I</b> Member of the Board of Directors</p>	<p><b>MR. NKANG'I (39)</b> holds a B.Com Degree Marketing option from the University of Nairobi and Higher National Diploma in Marketing From Kenya Institute of Management. He is a Business Manager of Dial-Up Associates Company Limited and Vice-Chairperson of Igembe Community Development Committee.</p>
	<p><i>Appointed on 9<sup>th</sup> November, 2015 for a 3 years term which ended on 8<sup>th</sup> November, 2018 and was reappointed on 3<sup>rd</sup> May 2019</i></p>
<p><b>Ms. Nyawira Ophelia Njeru</b> Member of the Board of Directors</p>	<p><b>MS. NJERU (44)</b> 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. She has over Fifteen (15) years' experience in Management having 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.</p>
	<p><i>Alternate to the Inspector General, Inspectorate of State Corporations, Office of the Deputy President.</i></p>
<p><b>Mr. James K. Wang'ombe</b> Alternate Member of the Board of Directors</p>	<p><b>MR. WANG'OMBE (55)</b> is an Economist by Profession. He Holds an MBA and is a Member of Information Systems Audit and Control Association (ISACA).</p> <p>He has over 28 years of Experience in the Public Service having served in the Planning and Oversight Sectors.</p> <p>He is currently an Inspector with the Inspectorate of State Corporations.</p>

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**Dr. David Njubi**  
 Alternate Member of the Board  
 of Directors.

***Alternate to the Executive Secretary, National  
 Commission for Science, Technology and Innovation  
 (NACOSTI)***

**DR. NJUBI (55)** holds a 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.

He is currently Chief Scientist & Head of Agriculture & Natural Resource Department at the National Commission for Science Technology and Innovation (NACOSTI). He is involved in Policy advice, promotion and Coordination of Science, Technology & Innovation.



**Eng. Andrew Gichamba Muigai**  
 Member of the Board of  
 Directors

***Appointed on 31<sup>st</sup> May 2016 for a 3 years term which  
 ended on 30<sup>th</sup> May 2019 and was reappointed on 30<sup>th</sup>  
 May 2019***

**ENG. MUIGAI (59)** holds a BSc. Degree in Civil Engineering from the University of Nairobi., Post Graduate Diploma in Procurement Management from Turin Italy and Post Graduate Certificate in Project Planning Appraisal & Financing from University of Bradford.

He is Registered with the Engineers Registration Board of Kenya as well as a Corporate Member, of Institute of Engineers of Kenya; he is also a Member of the Institute of Directors (Kenya). He is an entrepreneur, engineer and consultant with over thirty (30) years of experience in Civil Engineering & Project Management Consultancy; and over twenty five (25) years of experience in Leadership and Management gained in both the public and private sectors. He is currently the Executive Director Kunene Partners Limited - an advisory and fund raising firm - in special situation investments in sectors that include but not limited to real estate, energy, agriculture and infrastructure

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**Prof. Tuikong D. K. Serem,**  
**OGW**  
Member of the Board of  
Directors

*Appointed on 8<sup>th</sup> June, 2009 and served on a three (3) years renewable terms which ended on 8th November 2018.*

**PROF. SEREM (67)** 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 Chairman, Mount Kenya University Council.



**Prof. Christopher G. Nyagah**Member of the Board of  
Directors.

*Appointed on 17<sup>th</sup> April 2015 and served for three years. His term ended on 16<sup>th</sup> April, 2018 and was reappointed on 21<sup>st</sup> September 2018*

**PROF. NYAGAH (69)** holds a PhD in Chemistry, MSc. and B. Ed (Science) Hons from the University of Nairobi. He has more than 40 years of experience in Research, University Teaching and Management and has published many articles in referred journals. Prof. Nyagah is currently a Full Professor of Chemistry at Jomo Kenyatta University of Agriculture and Technology.

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**Eng. Kennedy Juma Wafukho**  
 Member of the Board of Directors

*Appointed on 31<sup>st</sup> May 2016 for a 3 years term which ended on 30<sup>th</sup> May 2019.*

**ENG. WAFUKHO (48)** holds a BSc. Degree in Electrical and Electronics Engineering from the University of Nairobi. He has twenty (20) years' experience in Manufacturing, Quality Assurance, Project Management, Facilities Management, EHS (Environment Health and Safety) Management, and Energy & outsourcing optimization.

He worked for KEBS in 1998 in the Import Inspection Section before joining British American Tobacco Kenya as a Graduate Trainee. He is currently the Head of Manufacturing in British American Tobacco Kenya. Prior to this he served in various roles starting as Production Services Manager, Primary Manufacturing Manager, Projects Manager, Quality Assurance Manager, GLT (Green Leaf Threshing) Plant Manager and Engineering & Facilities Manager in the same organization.

He has extensive experience in managing Capital Expenditure and Project Management using PRINCE 2 methodology.



**Mr. Martin S. Gumo**  
 Alternate Member of the Board of Directors




*Alternate to the Principal Secretary, Ministry of Finance and National Treasury*

**MR. GUMO (64)** holds a Bachelor of Commerce (Accounting option) Degree and Masters of Science Degree in Finance from the University of Nairobi. He is a qualified Accountant with CPA (K) and a member of ICPAK.



He is a career civil servant with vast experience in management and Public Finance having worked in the Public Service for over 35 years.

He is currently the Deputy Director, Macro and Fiscal Affairs in the National Treasury. Previously, he worked with the Ministry of Finance (now the National Treasury) and the Kenya Revenue Authority.

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 <p><b>Mr. Stephen A. Odua</b>          Alternate Member of the Board of Directors</p>	<p><i>Alternate to the Principal Secretary, Ministry of Trade Industry and Cooperatives.</i></p> <p><b>MR. ODU A (61)</b> holds of a Master's of Science degree in Entrepreneurship for JKUAT.</p> <p>He has over 25 years of experience working in the trade and Industrial development.</p> <p>He is also an Alternate Director in other State Corporations under the Ministry namely: Kenya Accreditation Services; and Special Economic Zones Authority. He has trained on several Corporate Governance courses and possesses extensive and varied experiences in Board operations and Management.</p> <p>He is the Ag. Director, Private Sector Development (PSD) in the State Department of Industry and Investment, Ministry of Industry, Trade and Co-operatives.</p>
 <p><b>Dr. Stephen Kiptoem Mairori</b>          Member of the Board of Directors</p>	<p><i>Appointed Director on 21<sup>st</sup> September, 2018 for a 3 years term</i></p> <p><b>DR. MAIRORI (51)</b> holds a Master of Divinity (Major in Leadership), Bachelor of Arts and Diploma in Bible and Theology.</p> <p>He was awarded Honorary Doctor on Ministry and ordained by African Inland Church (March 2016).</p> <p>He has served as a board member in various institutions. He was a member of the County Government of Trans Nzoia Public Service Board selection panel in 2013. He is an Executive Director of International Christian Ministries and a Patron of Elgon Pastors Forum</p>
 <p><b>Prof. David K. Rotich Tuigong</b>          Director / Secretary to the Board</p>	<p><i>Appointed Director on 4<sup>th</sup> June, 2018.</i></p> <p><b>PROF. TUIGONG (56)</b> holds a Doctorate of Engineering (Textile Engineering) degree from Donghua University (2002-2006), Shanghai, China; Master of Engineering degree in Textile Technology from Ghent University (1996-1998), Belgium. A Bachelor of Technology (Textile Engineering) from Bharathiar University, India. Was Previously Deputy Vice Chancellor - Finance at Moi University (2014-2016) and Managing Director, Rivatex East Africa Ltd (2007-2014).</p> <p>He has several publications to his name and is a member of Kenya Institute of Management; International Society of Engineers Education; Registered Graduate Engineer; Member</p>

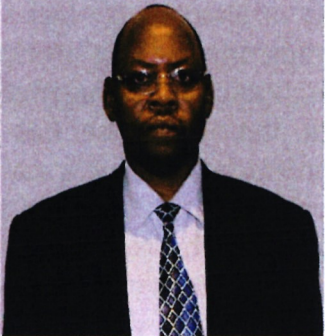

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	<p>of the Textiles Institute - Manchester, UK.  <i>Appointed Acting Director on 3<sup>rd</sup> December 2015.</i>  <i>Appointment ended on 3<sup>rd</sup> June, 2018.</i></p> <p>ENG. KAMAU (49) holds a BSc. (Hons) in Mechanical Engineering from the University of Nairobi. He has a wide experience in Mechanical Engineering having worked at KIRDI-EDSC for 25 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 Industry, Trade and Cooperatives among others.</p>
 <p><b>Ms. Florence M. K. Mwikya</b>          Corporation Secretary &amp; Head of          Legal Services</p>	<p><b>MS. MWIKYA (40)</b> holds a Master of Laws Degree (LLM) from the University of Nairobi, a Bachelor of Laws Degree (LLB) from the same University and a Post Graduate Diploma in Law from the Kenya School of Law. She is a Commissioner for Oaths and Notary Public. Florence is a Certified Public Secretary of Kenya (CPSK) and a Member of the Institute of Certified Public Secretaries of Kenya (ICPSK) and the Law Society of Kenya (LSK) in good professional standing. Florence has a wealthy of experience both Legal and Corporation Secretarial matters both from Private and Public Sector.</p>

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**MANAGEMENT TEAM 2017/2018**

<b>MEMBER</b>	<b>PROFILE</b>
 <p><b>Prof. David K. Rotich Tuigong</b> Director / Secretary to the Board</p>	<p><b>PROF. TUIGONG (56)</b> holds a Doctorate of Engineering (Textile Engineering) degree from Donghua University (2002-2006), Shanghai, China; Master of Engineering degree in Textile Technology from Ghent University (1996-1998), Belgium. A Bachelor of Technology (Textile Engineering) from Bharathiar University, India. Was Previously Deputy Vice Chancellor - Finance at Moi University (2014-2016) and Managing Director, Rivatex East Africa Ltd (2007-2014).</p> <p>He has several publications to his name and is a member of Kenya Institute of Management; Member: International Society of Engineers Education; Registered Graduate Engineer; Member of The Textiles Institute - Manchester, UK.</p>
 <p><b>Eng. Joseph K. Kamau</b> Ag. Director/Secretary to the Board</p>	<p><b>ENG. KAMAU (49)</b> holds a BSc. (Hons) in Mechanical Engineering from the University of Nairobi. He has a wide experience in Mechanical Engineering having worked at KIRDI-EDSC for 25 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 Industry, Trade and Cooperatives among others.</p>

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**Dr. Moses Makayoto (OGW)**  
 Chief Research Scientist/  
 Deputy Director, Technology  
 Transfer & Extension Services

**DR. MAKAYOTO (65)** holds a Ph.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.

*(Retired on 29<sup>th</sup> June, 2018)*



**Dr. Kenneth Chelule**  
 Deputy Director Research  
 Technology and Innovation

**DR. CHELULE (48)** 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).



**Ms. Florence M. K. Mwikya**  
 Corporation Secretary & Head  
 of Legal Services

**MS. MWIKYA (40)** holds a Master of Laws Degree (LLM) from the University of Nairobi, a Bachelor of Laws Degree (LLB) from the same University and a Post Graduate Diploma in Law from the Kenya School of Law. She is a Commissioner for Oaths and Notary Public. Florence is a Certified Public Secretary of Kenya (CPSK) and a Member of the Institute of Certified Public Secretaries of Kenya (ICPSK) and the Law Society of Kenya (LSK) in good professional standing. Florence has a wealthy of experience both Legal and Corporation Secretarial matters both from Private and Public Sector.



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**Mr. William M. Waweru**  
 Deputy Director, Finance  
 Human Resource and  
 Administration

**MR. WAWERU (44)** holds a Master's Degree in Business Administration (MBA) from University of Nairobi and a B.Com degree from the same University.

He is a qualified Accountant CPA (K) and a Member of ICPAK as well as a Full Member of Kenya Institute of Management (KIM). He has undertaken Strategic Leadership Development Course (SLDP) at Kenya School of Government.

He has a wide experience in Financial Management, Human Resource Management, Administration and Auditing and has worked in Public Service Private Sector organizations.



**Mr. Nicodemus Mutinda**  
 Deputy Director, Corporate  
 Services

**MR. MUTINDA (40)** holds a Master's of Business Administration (MBA) in Strategic Management from Kenyatta University, Bachelor of Technology in Textile Engineering from Moi University and is a certified Quality Management Systems auditor.

He has more than 15 years of experience in Business Processes Re-engineering, Product Development, Quality Management Systems, Performance Management and Project Management.

He is responsible for Planning, Strategy, Monitoring and Evaluation, Quality Assurance, Marketing and Corporate Communication functions within the Institute.



**Ms. Floice Mukabana**  
 Assistant Director, Finance

**MS. MUKABANA (43)** holds LLB Degree from the University of Nairobi and an MBA from Jomo Kenyatta University of Agriculture and Technology. She is a member of several professional bodies including the Institute of Certified Financial Analyst (ICFA), 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 Industry and in the Public Sector.

***(Resigned on 30<sup>th</sup> November 2017)***

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**Mr. Jairus Ombui**  
 Assistant Director, Human  
 Resource & Administration

**MR. OMBUI (57)** 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 Sector.



**Mr. John Kahura**  
 Principal Internal Auditor

**MR. KAHURA (60)** 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 Sector.

*(Retired on 30<sup>th</sup> April, 2018)*



**Mr. Stanley Abonyo**  
 Ag. Assistant Director-Finance

**MR. ABONYO (42)** holds a Bachelor of Commerce (Accounting Option) degree and Masters of accounting and Business Statistics. He is a qualified accountant with CPA (K) and a member of Institute of Certified Public Accountants (ICPAK).

He has over ten (10) years' experience in finance and Accounting gained in Public and private sector. He has taught finance and accounting units in several public universities in Kenya as a part time Lecturer.

*(Appointed as Ag. AD - Finance on 18<sup>th</sup> June, 2018)*

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**CHAIRMAN'S STATEMENT**



The Kenyan manufacturing sector continues to face challenges that hamper its growth. The main challenges in this sector include low productivity and low global competitiveness. The main cause of low productivity and low global competitiveness is the nature of manufacturing technology utilized. Most of the Kenyan Manufacturing industries are still using outdated technology compared to similar industries in other countries especially in Asia, Europe and United State of America. These makes products imported into the country cheaper and of higher quality than locally manufactured products. The Kenyan Manufacturing sector is also dominated by Small and Medium Enterprises (SMEs) which face a myriad of challenges as a result of lack of technological capabilities.

In order to assist the manufacturing sector, KIRDI has continued to develop and transfer to industry, technologies geared towards addressing the challenges of low productivity, poor product quality and technological backwardness.

During 2017/2018 financial year the Institute continued with the operationalization program of the leather research and transfer laboratories in KIRDI Western Region Centre in Kisumu. The Institute also continued with the construction of the ultra-modern Research, Technology and Innovation laboratories at Nairobi, South B, which current stands at 64.5% completion rate. The Institute also implemented Research, Technology and Innovation programmes aligned to the Government's priority sectors of Leather, Textile and Agro-processing. The Institute also supported Micro, Small and Medium Enterprises (MSMEs) development through technology transfer and provision of product development, incubation, common manufacturing facilities and laboratory services and thus contributing to wealth and employment creation.

The institute is also taking matters of Constitutionalism, Governance and Integrity issues serious and thus during the 2017/2018 financial year the institute continued to review and align its policies and programmes with the constitution, ensured adherence to Mwongozo Code of Governance and promotion of National Values and Principles of Governance.

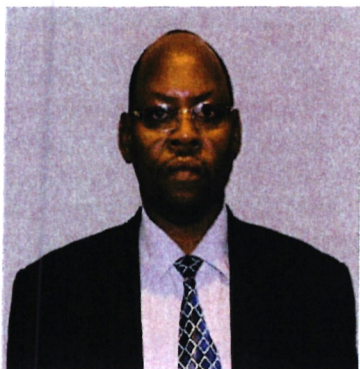
Signature: .....  
HON. J. LEELIT LATI

Date: 20/6/2018.....

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**REPORT OF THE CHIEF EXECUTIVE OFFICER**



I am delighted to present the KIRDI financial report for the 2017/2018 financial year. The institute has continued to undertake its mandate as stipulated in the Science and Technology 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 institution continued to implement the Government's industrialization

priority sectors of Leather, Textile and Agro-processing. During the 2017/18 financial year the Institute implemented the following programmes: -

**(a) Enhance Industrial growth and development**

To support industrial growth and development the Institute developed and transferred the following technologies: -

1. Sunflower Processing technology in Kakamega County
2. Soya Bean Processing in Kakamega County
3. Fruit Juice processing in Kisii County
4. Charcoal briquetting technology in Kisii County
5. Honey processing in Kisii County
6. Banana processing technology in Kisii County
7. Mango Juice processing technology in Malindi County
8. Seaweed value addition technology in Kwale County

**(b) Promote MSMEs development**

During the 2017/2018 financial year The Institute supported 505 MSMEs as follows:-

- i. 28 MSMEs through Technology Incubation services
- ii. 136 MSMEs through common manufacturing services
- iii. 160 MSMEs through Training, capacity building and consultancy services
- iv. 181 MSMEs through laboratory analytical and testing services

**(c) Enhance global competitiveness**

During the 2017/2018 financial year the Institute supported the upgrade of seventeen (17) MSMEs products to enhance their global competitiveness through product development, standardization, and packaging in the following priority sectors:-

- i. Agro-processing - 10 products
- ii. Leather - 2 products

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iii. Natural products - 5 products

**(d) Infrastructure Development**

Under the transformation of KIRDI into a world class Research Institution programme, the Institute continues with the development of Leather research and technology transfer laboratories in KIRDI Western Region Centre in Kisumu by commencing the construction of Leather Annex building. The Institute also continued with the development of the Research, Technology and Innovation laboratories and related infrastructure at Nairobi South B which stood at 64.5% completion rate at the close of the financial year.

In addition the Institute implemented/collaborated in the implementation of the following donor funded projects: -

1. Green growth in the Manufacturing Sector in collaboration with Embassy of Denmark in Kenya, Ministry of Environment and Food of Denmark, Ministry of Environment of Kenya, Ministry of Industry, Trade and Cooperatives of Kenya.
2. Greening of Special Economic Zones in collaboration with United Nations Environment Programme, International Environment Technology Center (IETC) and DANIDA.
3. Biogas technology laboratory in partnership with NASKEO (French Company), French Embassy in Kenya, USAID, UNDP and Ministry of Environment and forest of Kenya.
4. Design, Fabrication and Installation of camel meat processing in collaboration with North Eastern National Polytechnic and funded by National Research Fund of Kenya.
5. Design and Development of refractance window drier in collaboration with Jomo Kenyatta University (Kenya), Makerere University (Uganda) and funded by CIDA.
6. Business Incubation for Women Entrepreneurs funded by COMESA

The Institute participated in the following events to sensitize the public on the services offered by KIRDI: -

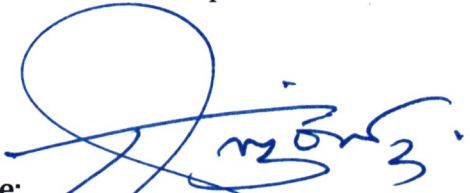
1. Nairobi International Trade Fair, organized by Agricultural Society of Kenya (ASK).
2. Kenya Manufacturing Summit and Expo organized by Kenya Association of Manufacturers and Ministry of Industry, Trade and Cooperatives.
3. Laikipia Entrepreneurship and Innovation week , organized by Laikipia County Government

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4. Nairobi Innovation week, organized by University of Nairobi.
5. Launch of National Land Use Policy, organized by Ministry of Lands and Urban Development.

Signature: .....



**PROF. DAVID K. ROTICH TUIGONG**

Date: .....

20/07/2019

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**CORPORATE GOVERNANCE STATEMENT**

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 the 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 exercises its role collectively. It determines the Institute's Mission, Vision, Purpose and Core values, sets and oversees the overall strategy and approves significant policies of the institute, ensures that the strategy is aligned with the purpose of the institute and the legitimate interests and expectations of its shareholders and other stakeholders. The Board also ensures that the strategy of the Institute is aligned to the long term goals of the Institute on sustainability so as not to compromise the ability of future generations to meet their own needs. It also approves the organizational structure, approves the annual budget of the Institute, monitors the Institute's performance and ensures sustainability, enhances the corporate image of the Institute, ensures availability of adequate resources for the achievement of the Institute's objectives, hires the C.E.O on such terms and conditions of service as may be approved by the relevant government organs, approves the appointment of senior management staff and ensures effective communication with stakeholders.

**Composition of the BOD**

The Board currently consists of one (1) executive and eleven (11) non-executive Directors. The composition of the Board and brief biographies of the Directors, which highlights the range of experience they bring to the Board are as set out on pages viii to xii.

**Board Meetings**

A schedule of Board and Committee meetings is circulated to the Board in advance of the financial year.

During the year ended 30<sup>th</sup> June 2018, the Board held meetings as follows; Four(4) Full Board, Eight (8) Special Board meetings, Four(4) RTI committee meetings Four(4) finance and special projects committee meetings, Three(3) Risk and Audit committee meetings and Four (4) HRA committee meetings. On top of that the Board held Three(3) special HRA Committee meetings,Two(2) Special finance and special projects committee meetings,One (1) visit to KWRC,One (1) Training at Kenya School of Government, One (1) PC Negotiation Meeting,Three (3) CEO And Chairman introduction and Appointment meetings and One (1) BOD retreat.

Individual attendance at these meetings is set out in the table below.

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**2017/2018 BOARD AND BOARD COMMITTEES MEMBERSHIP AND ATTENDANCE**

Director	FB	F & SP	RTI	RAC	HRA	SFB	SHRA	SF & SP	CEO INT& Ag Chair CEO APPT	TR. KSG	KWRC VISIT	PC NEG	BOD RET
M. Nduati (PS)	1					1							1
Dr. N. K. Psiwa	4					5				1	1		1
Prof. C. G. Nyagah	4	1	2	3		6				1			1
Prof. T. K. Serem	4	4	4			8		2		1	1		1
Mr. S. Odua		2	2			5		1					1
Mr. M. Gumo	1			1	2	5	3				1		1
Eng. A. G. Muigai	3	4	4			8		2	3	1	1	1	1
Dr. D. Njubi	4		3		4	7	2			1	1		1
Mr. A. M. Abdi	4	4			4	8	3	2		1	1		1
Ms. N. Njeru	1			3	4	6	3		2		1		
Mr. C. Kinoti	4			3	4	8	3			1	1		1
Eng. K. J. Wafukho	3			1	2	5							1
J. Wang'ombe						3							1
Hon. J. LelelitLati						1						1	
Eng. J. K. Kamau	4	3	4		4	7	2	1					1
Prof. D. R. Tuigong						1	1	1	1				

**KEY**

FB	-	Full Board
F & SP	-	Finance and Special Projects
RTI	-	Research Technology and Innovation
RAC	-	Risk and Audit
HRA	-	Human Resource and Administration
SFB	-	Special Full Board
SHRA	-	Special Human Resource and Administration
SF&SP	-	Special Finance and special Projects
CEO Int.	-	Chief Executive Officer Introduction
TR KSG	-	Training at Kenya School of Government
KWRC V	-	KWRC Visit
Ag. Chair & CEO Appt.	-	Ag. Chairman and CEO Appointment
PC NEG	-	Performance Contract Negotiation
BOD RET	-	Board of Directors Retreat



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**BOARD COMMITTEES AND THEIR COMPOSITION**

The Board committees, composition and mandate is as below;

**1. Research Technology and Innovation Committee**

This being the Core Mandate of the Institute, the committee deliberates on all matters pertaining to Research, Technology and Innovation policies, guidelines and management.

The members of the committee were:

Prof. Tuikong D.K. Serem - Chair RTI Committee  
Prof. Christopher Nyagah  
Dr. David Njubi  
Mr. Stephen Odua  
Eng. Andrew Muigai  
Eng. Joseph Kamau

It had had the responsibility to Monitor and evaluate Research, Technology, Innovation and Development in the Institute, Consider, define and recommend to the Board the scope of Research, Technology, Innovation and Development areas relevant to the Institute, Develop policy guidelines to manage Research, Technology, Innovation and Development portfolio of the Institute and Vet, monitor and inspect the extent of Research, Technology, Innovation and Development comparing with the world best practices.

**2. Finance and Special Projects Committee**

The Finance and Special Projects (F&SP) Committee is the prime mechanism through which the Board ensures that the institution's decisions, policies and practices in relation to finance, procurement, infrastructural development and all special projects are in full compliance with relevant policies and statutory requirements.

The members of the committee were:

Mr. Ahmed M. Abdi - Chair Finance and Special Projects committee  
Prof. Tuikong D.K. Serem  
Eng. Adrew Muigai  
Mr. Stephen Odua  
Eng. Joseph Kamau

This Committee had the role of considering, advising and making appropriate recommendations to the Board of Directors on all aspects of financial strategy, including fundraising initiatives, Reviewing financial performance against budget and plans, Considering proposals for major capital expenditure projects and recommending to the Board, Reviewing progress on each major capital

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expenditure project during implementation, requesting and receiving reports from

other committees on any matter having a financial implication, Ensuring that adequate A in A was raised, providing oversight of the

arrangements for safeguarding institutional assets and making recommendations to the Board as appropriate.

**3. Risk and Audit Committee**

The Risk & Audit (RAC) Committee of the Board dealt with risk management and audit matters. The internal audit unit within the institute was responsible for the institution's internal audit and provided secretariat to the Risk & Audit Committee of the Board.

**The members of the Committee were:**

Prof. Christopher G. Nyagah - Chair Risk and Audit committee  
Ms. Nyawira Njeru  
Mr. Christopher Kinoti Nkang'i  
Mr. Martin S.O. Gumo  
Eng. K. Wafukho

The Committee reviewed the activities, resources and the operational effectiveness of internal audit office; including appointment, replacement, and dismissal of the Internal Auditor, and where appropriate made recommendations to the Board. It considered the respective scope of work and audit plans of the internal audit office, reviewed major findings on internal audit and investigations reports; and ensured that appropriate action was taken on issues arising from such reports, reviewed and monitored management's responsiveness to the findings and recommendations of the Internal Auditor, reviewed the Comptroller and Auditor General /external auditor's management letters and management's response, discussed with external auditors any reservations and problems arising in the course of their audit, and any audit management letters and management responses prior to the issuance of the audit certificate, reported Committee actions to the Board with such recommendations as the committee may deem appropriate; and Undertook such other duties or functions as may be assigned by the Board of Directors which are relevant to audit and investigations.

**4. Human Resources and Administration Committee**

The committee was expected to satisfy itself that the institute's human resources management and administration activities were adequate and effective.

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**The Members of the Committee were:**

Ms. Nyawira Njeru	-	Chair HR&A Committee
Mr. Ahmed Muhumed Abdi		
Mr. Christopher Kinoti Nkang'i		
Dr. David Njubi		
Mr. Martin S. Gumo		
Eng. K. Wafukho		
Eng. Joseph Kamau		

The Role of the Committee was to consider, review, monitor and make recommendations to the Board of Directors on the institute's human resources strategy and policies that pertain to staffing, compensation, benefits, and related issues of strategic importance that directly affected the institute's ability to recruit, develop and retain highly-qualified staff needed for it to achieve its mandate, to deliberate on promotions, terminations, dismissals, and staff development within the specified job grades, to request and receive reports from other committees on any matter having a human Resource implication and undertake such other duties or functions as may be assigned by the Board of Directors which are relevant to Human Resource and Administration.

**Directors' Remunerations**

Details of remuneration paid to the Directors are set out in the Remuneration Report on page 14.

**Risk Management and Internal Control**

The Board is responsible for the Institute's 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 received regular reports from the Chairman of the Risk and Audit Committee on its activities during the year and in addition considered a report from the Audit 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 State Corporations Advisory Committee (SCAC), and the Performance Management office 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 Enterprise Development, SCAC and office of the President on Performance contracting.

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**Institute's 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](http://www.kirdi.go.ke). A range of measures were developed to ensure that employees in the Institute remained aware of the Guidelines and of the general need to ensure that all the institute's activities were 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.

These standards are regularly communicated to the Institute's 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 xviii to xx. The financial position of the Institute, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 1 to 23.

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.

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**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.

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**MANAGEMENT DISCUSSION AND ANALYSIS**

The Institute invested Kshs.9.6 Million in the construction of Leather research and technology transfer laboratories building in KIRDI Kisumu. The Building was 70% complete by the close of the financial year. Once the building is complete the Leather equipment that have been already procured will be installed and the laboratories operationalized. The laboratories are expected to enhance the quality of research and technology development, increase the number of MSMEs supported as well as increase the amount of internally generated income (A-in-A). The Institute also invested additional Kshs.116 Million in the construction of Research, Technology and Innovation laboratories in KIRDI South B and Kisumu. This project still requires 3.3 Billion to complete. Once completed these Research, Technology and Innovation laboratories will enhance the quality of research and technology development, increase the number of MSMEs supported as well as increase the amount of internally generated income (A-in-A).

During the 2017/18 financial year, the Institute supported 505 MSMEs through provision of Common Manufacturing Facilities, Technology incubation, Training and capacity building and Laboratory services against a target of 516 MSMEs. This performance was affected by economic slowdown occasioned by the long electioneering period during the 2017 general election. The Institute provided support to upgrade MSMEs products to achieve standard mark of quality. The Institute surpassed the target of 15 MSMEs products to achieve 17 products upgraded.

During the 2017/18 financial year the Institute realized internally generated incomes (A-in-A) of Kshs.20.5 Million against a target of Kshs.30 Million. The target was not achieved on account of decrease in demand for the Institute's services due to economic slowdown occasioned by the long electioneering period during the 2017 general election.

The Institute's exchequer disbursement for 2017/18 financial year was reduced by Kshs.75.5 million for recurrent allocation and Kshs.23.5 million for development allocation.

The Major risk for the Institute is legal action due to breach of contract for the project on Research, Technology and Innovation laboratories in Nairobi, South B. The project has run behind the completion schedule due to inadequate funding and has started incurring penalties. The main contractor has expressed his intention to start charging contract claims due to the Institute's breach of contract on payments. The Institute is also facing possible legal action by financial Institutions (Banks and SACCOs) for failure to remit deductions from staff salaries for loans and other financial commitments with those Institutions. By the closure of the financial year, the Institute had not remitted Kshs.53.4 million as staff salary deductions to various financial institutions.

Management is still pursuing the exchequer with the Ministry of Industry trade and Cooperatives, the Kshs.85 million that was not remitted at the end of the 2017/18 Financial Year.

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**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.

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

The code of governance (Mwongozo) implemented through the executive order No.7 of 2015 provides guidelines for terms of service for the Institute's Board of Directors.

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The Board charter that is in place has been observed by the Institute to ensure effectiveness in governance.

The appointments and removals of the Board of Directors is informed by the relevant provisions of the code of governance.

Induction and training of the Board of Directors is conducted by the state corporation advisory committee.

Ethics and code of conduct for the Board is governed by the constitutional provision on leadership and integrity.



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**REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended June 30<sup>th</sup>, 2018 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, 2018 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

Sign: .....



**MS. FLORENCE MUMBI MWIKYA**  
**CORPORATE SECRETARY**

Date: ..... 20/6/2019 .....

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**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, 2018. 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 30<sup>th</sup>, 2018, 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.

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.

The Kenya Industrial Research and Development Institute's financial statements were approved by the board on 27.09.18 2018 and signed on its behalf by:

  
.....  
Director

  
.....  
Director

  
.....  
Director

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**REPORT OF THE INDEPENDENT AUDITORS ON KENYA INDUSTRIAL RESEARCH  
AND DEVELOPMENT INSTITUTE**

# REPUBLIC OF KENYA

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Fax: +254-20-311482  
E-Mail: oag@oagkenya.go.ke  
Website: www.kenao.go.ke



P.O. Box 30084-00100  
NAIROBI

## **OFFICE OF THE AUDITOR-GENERAL** **REPORT OF THE AUDITOR-GENERAL ON KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE FOR THE YEAR ENDED 30 JUNE 2018**

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### REPORT ON THE FINANCIAL STATEMENTS

#### **Qualified Opinion**

I have audited the accompanying financial statements of Kenya Industrial Research and Development Institute set out on pages 1 to 23, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Industrial Research and Development Institute as at 30 June 2018, and 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.

#### **Basis for Qualified Opinion**

##### **1. Property, Plant and Equipment**

###### **1.1. Revaluation of Non-Current Assets**

The statement of financial position reflects a balance of Kshs.4,114,967,895 under property, plant and equipment as at 30 June 2018. However, as reported in the previous year, the last valuation for these assets was conducted over 39 years ago in 1980. The long delay contravenes International Accounting Standard No.16 which stipulates that property, plant and equipment be revalued after every five years.

###### **1.2. Delay in Project Completion - The Proposed Techno Centre**

The Institute procured Vaghjiyani Enterprises for implementation of the proposed Techno Centre (Research, Technology & Innovation Laboratories and related infrastructure) in South B, that commenced on 25 February 2013 at an estimated contract sum of

*Report of the Auditor-General on the Financial Statements of Kenya Industrial Research and Development Institute (KIRDI) for the year ended 30 June 2018*

Kshs.3,933,008,763 and was to take 156 weeks with a completion date of 3rd March 2016. As per the Architect's progress report as at 30 June 2018, the project was approximately 63.5% complete having taken 277 weeks while the project contract price had been revised to Kshs.4,812,400,054.

There has been no notable progress on site for the past 30 months and although it was targeted to be complete in 156 weeks, 277 weeks had elapsed by 30 June 2018. Consequently, the Institute may not meet its mandate as anticipated and the projected incomes from RTI Centre may not be realized which is likely to affect the Institute's cash flows and already underfunding status.

Further, there are extra costs to be incurred due to idle staff and machinery and interest on delayed payments, which amounted to Kshs.27,233,557 as per certificate No.31 dated 2 February 2018. These voidable costs are not a proper charge to public funds as they have no commensurate value.

Consequently, it has not been possible to confirm that the property, plant and equipment balance of Kshs.4,114,967,895 as at 30 June 2018 is fairly stated.

## **2. Retentions**

The statement of financial position as at 30 June 2018 reflects a figure of Kshs.216,611,493 as contractor's retention money. It was observed that the Institute did not set aside money for paying the retention money. The Institute inability to honour its financial obligations when they fall due contravenes Section 151 subsection 2 (c and h) of the Public Procurement and asset Disposal Act, 2015.

## **3. Accounts Receivables - Non-Recovery of Excess Medical Expenditure**

Included in the account receivables balance of Kshs.20,077,576 is Kshs.4,719,351 being excess medical expenditure due for recovery from some members of 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 do not give clear guidance on provisions to be made in case of death of a staff member. In addition, the rate of recovery of the expenditure is, when compared to the respective outstanding amounts, evidently very low with some balances having no instalment recovered at all.

In the circumstances, the recoverability of the account receivables excess medical balance of Kshs.4,719,351 is doubtful.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Industrial Research and Development Institute (KIRDI) in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report for the year under review.

## **Other Matter**

### **Financial Performance**

The statement of financial performance for the year ended 30 June 2018 reflected net deficit of Kshs.164,721,477 (2016/2017-Deficit Kshs.121,520,785). This is despite remission of Government recurrent grant of Kshs.578,751,833.

Further, the statements of financial position as at 30 June 2018 reflects Institute's current assets of Kshs.68,603,151 against current liabilities of Kshs.174,752,098 resulting to negative working capital of Kshs.106,148,947.

The Institute's going concern status is thus dependent on Government support and its creditors.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

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

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion section of my

report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and Those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the Institute's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Institute or to cease operations, or have no realistic alternative but to do so.

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

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

Those charged with governance are responsible for overseeing the Institute's financial reporting process, reviewing the effectiveness of how the Institute monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error,

and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Institute's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Institute to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Institute to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

**Nairobi**

**20 August 2019**

**Kenya Industrial Research and Development Institute (KIRDI)**  
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**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED 30<sup>th</sup> JUNE 2018**

	NOTES	2017/2018 Kshs.	2016/2017 Kshs.
<b>REVENUE</b>			
<b>Income from non-exchange transactions</b>			
Re-Current Grants	2	578,751,833	654,335,777
Development grants	3	-	227,145,150
Deferred grant income	4	95,599,768	94,578,445
Donor funds received	5	44,720,898	-
		<b>719,072,499</b>	<b>976,059,372</b>
<b>Income from exchange transactions</b>			
Rendering of services	6	20,515,990	23,449,425
Others	7	-	144,566
		<b>20,515,990</b>	<b>23,593,991</b>
<b>Total revenue</b>		<b>739,588,489</b>	<b>999,653,363</b>
<b>EXPENSES</b>			
Staff Cost	8	509,605,202	534,674,849
Board Expenses, conferences & seminars	9	30,559,020	29,680,378
Administrative Expense	10	205,228,612	404,338,256
Research feasibility studies and projects	11a	31,994,533	53,751,936
Depreciation Expenses	12	95,599,768	94,578,445
Decrease in stock	13	2,117,679	4,150,284
Donor funds expense	5	29,205,152	-
		<b>904,309,966</b>	<b>1,121,174,148</b>
<b>SURPLUS/(DEFICIT) FOR THE YEAR</b>		<b>(164,721,477)</b>	<b>(121,520,785)</b>


The notes set out on pages 9 to 20 form an integral part of these Financial Statements.

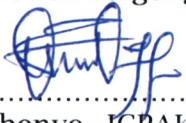
**Kenya Industrial Research and Development Institute (KIRDI)**  
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**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30<sup>TH</sup> JUNE 2018**

ASSETS	NOTES	2017/2018 Kshs.	2016/2017 Kshs.
<b>NON CURRENT ASSETS</b>			
R & D Projects	11b	160,424,504	132,395,771
Property, Plant and Equipment	12	4,114,967,895	4,089,999,956
<b>Total</b>		<b>4,275,392,399</b>	<b>4,222,395,727</b>
<b>CURRENT ASSETS</b>			
Stores and inventories	13	1,199,513	3,317,192
Accounts Receivable	14	20,077,576	12,756,945
Cash and Cash Equivalents	15	47,326,062	85,291,946
<b>Total</b>		<b>68,603,151</b>	<b>101,366,083</b>
<b>TOTAL ASSETS</b>		<b>4,343,995,550</b>	<b>4,323,761,810</b>
<b>ACCUMULATED FUNDS &amp; LIABILITIES</b>			
Capital funds G.O.K	16	4,269,588,719	3,987,332,149
Revenue Reserves	17	(316,956,760)	78,799,206
Accumulated Funds		3,952,631,959	4,066,131,355
<b>NON-CURRENT LIABILITIES</b>			
Retentions	18	216,611,493	212,147,467
<b>CURRENT LIABILITIES</b>			
Accounts payable	19	145,880,575	19,804,804
Unused Project Funds	20	27,613,523	23,724,184
Provisions	21	1,258,000	1,954,000
<b>Total</b>		<b>174,752,098</b>	<b>45,482,988</b>
<b>TOTAL ACCUMULATED FUNDS &amp; LIABILITIES</b>		<b>4,343,995,550</b>	<b>4,323,761,810</b>

The Financial Statements set out on pages 1 to 20 were signed on behalf of the Board of Directors By:

Signature  Date: 20/6/19  
 Director: Prof. David Rotich Tuigong'

Signature  Date: 20/6/19  
 Ag.AD-F: Mr. Stanley Abonyo -ICPAK No.6651

Signature  Date: 20/6/19  
 Chairperson: Hon. Lelelit Lati

**Kenya Industrial Research and Development Institute (KIRDI)**  
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**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

	<b>Capital Funds Kshs.</b>	<b>Revenue Reserve Kshs.</b>	<b>Total Kshs.</b>
<b>As at 30th June 2016</b>	<b>3,921,921,909</b>	<b>200,319,991</b>	<b>4,122,241,900</b>
G.O.K Grants (net increase)	157,854,850		157,854,850
Amortization	(94,578,445)		(94,578,445)
Capitalization of Assets	2,133,835		2,133,835
Surplus/(Deficit) for the year		(121,520,785)	(121,520,785)
<b>As at 30th June 2017</b>	<b>3,987,332,149</b>	<b>78,799,206</b>	<b>4,066,131,355</b>
Prior year adjustments	227,145,150	(227,145,150)	-
G.O.K Grants (net increase)	150,711,188		150,711,188
Amortization	(95,599,768)		(95,599,768)
Project grants transfer		11,626,407	11,626,407
Surplus/(Deficit) for the year		(164,721,477)	(164,721,477)
Unutilized donor funds for the year		(15,515,746)	(15,515,746)
<b>As at 30th June 2018</b>	<b>4,269,588,719</b>	<b>(316,956,760)</b>	<b>3,952,248,173</b>

**Kenya Industrial Research and Development Institute (KIRDI)**  
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**STATEMENT OF CASHFLOWS**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

	Note	2017/2018 Kshs.	2016/2017 Kshs.
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Operating surplus/(deficit)		(164,721,477)	(121,520,785)
Adjustment for items not involving movements of cash:			
Deferred grant income	4	(95,599,768)	(94,578,445)
Depreciation expenses	11	95,599,768	94,578,445
Project funds surplus		(3,889,339)	-
<b>Surplus/Deficits before working capital changes</b>		<b>(168,610,816)</b>	<b>(121,520,785)</b>
<b>WORKING CAPITAL CHANGES</b>			
Decrease in inventories		2,117,679	4,005,718
Increase in Accounts receivable		(7,320,631)	(217,004)
Change in provisions		(696,000)	4,000
Changes in Creditors and Accruals		130,539,797	(72,340,292)
Changes in Working capital		124,640,845	(68,547,578)
<b>Net cashflow generated from Operating Activities</b>		<b>(43,969,971)</b>	<b>(190,068,363)</b>
<b>Cash Flow in Investing Activities:</b>			
Additions to Property, plant and Equipment		(148,596,440)	(142,089,146)
<b>Cashflow from financing:</b>			
Capital grants		150,711,188	157,854,850
Changes from Donor project funding		3,889,339	12,097,777
<b>Net cash generated from financing activities</b>		<b>154,600,527</b>	<b>169,952,627</b>
Net increase/ decrease in cash and cash equivalents		(37,965,884)	(162,204,882)
Cash at the beginning of the year		85,291,946	247,496,828
<b>Cash at the end of the year</b>	<b>14</b>	<b>47,326,062</b>	<b>85,291,946</b>

**Kenya Industrial Research and Development Institute (KIRDI)**  
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**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018-RECURRENT BUDGET**

	Original Budget	Adjustments	Final Budget	Actual Comparable Basis	Performance Difference	Percentage variance	Notes
Revenue	2017-2018 Kshs.	2017-2018 Kshs.	2017-2018 Kshs.	2017-2018 Kshs.	2017-2018 Kshs.	%	
Rendering of Services	30,000,000	-	30,000,000	20,515,990	(9,484,010)	-32	(i)
Government grants	654,335,779	-	654,335,779	578,751,833	(75,583,946)	-12	(ii)
Donor Funds	-	-	44,720,898	44,720,898	-	0	
<b>Total income</b>	<b>684,335,779</b>	<b>-</b>	<b>729,056,677</b>	<b>643,988,721</b>	<b>(85,067,956)</b>	<b>-12</b>	
<b>Expenses</b>							
Compensation of employees	520,360,000	-	520,360,000	469,206,381	51,153,619	10	(iii)
Board Expenses, conferences & seminars	13,774,990	4,000,000	17,774,990	30,559,020	(12,784,030)	-72	(iv)
Goods and Services	130,200,789	(4,000,000)	126,200,789	244,927,433	(118,726,644)	-94	(v)
Donor funds Expenses	-	-	44,720,898	29,205,152	15,515,746	-	(vi)
Other Payments (RT&I Expenses)	20,000,000	-	20,000,000	31,994,533	(11,994,533)	-60	(vii)
<b>Total Expenditure</b>	<b>684,335,779</b>	<b>-</b>	<b>729,056,677</b>	<b>805,892,519</b>	<b>(76,835,842)</b>	<b>-11</b>	
<b>Surplus/(Deficit)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-161,903,798</b>	<b>-161,903,798</b>	<b>-22</b>	

Refer to Note: 27

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**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018-DEVELOPMENT BUDGET**

	Original Budget	Adjustments	Final Budget	Actual Comparable Basis	Performance Difference	Percentage variance	Notes
Revenue	2017-2018 Kshs.	2017-2018 Kshs.	2017-2018 Kshs.	2017-2018 Kshs.	2017-2018 Kshs.	%	
Development grants	174,250,000	-	174,250,000	150,711,188	23,538,812	14	(viii)
<b>Expenditure</b>							
Purchase of specialized materials and supplies	-	-	-	-	-		
Construction of Buildings	136,750,000	-	136,750,000	118,293,185	18,456,815	13	
Refurbishment of Building	-	-	-	-	-		
Construction of civil works	-	-	-	-	-		
Purchase of Motor vehicles	-	-	-	-	-		
Purchase of Furniture & General Equipment					-		
Purchase of specialized equipment plant and machinery	37,500,000	-	37,500,000	32,418,003	5,081,997	14	
Rehabilitation and Renovation of plant Equipment/machinery	-	-	-	-	-		
Research, Feasibility Studies, Preparation ,design & Supervision	-	-	-	-	-		
<b>Total</b>	<b>174,250,000</b>	<b>-</b>	<b>174,250,000</b>	<b>150,711,188</b>	<b>23,538,812</b>	<b>14</b>	

Refer to Note: 28

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**Budget variances**

The over-expenditure (negative variances) and the under-expenditure (positive variances) reflected in recurrent and development budget vote-lines were due to the following:

**(i) Rendering of Services**

The negative variance in A.I.A. was occasioned by prolonged electioneering period which disrupted operations in the centres of the Institute resulting in performing below the target.

Delay in disbursement of government grant and budget cut caused inefficiency in the Institute core operations.

**(ii) Government Grants**

The Institute did not receive the full allocation from the parent ministry (Ministry of Trade, Industry and Cooperatives) totaling to Kshs.75.5 million which was approved in the institute budget.

**(iii) Compensation of employees**

The unutilized amount of Kshs.51.1 million reflected in the statement is as a result of retirement, resignation and death of employees. The Board and management has fast tracked the process of replacing the vacant positions.

**(iv) Board Expenses, conferences and seminars**

The negative variance of kshs.12.7 million was due to under estimation of the budget line with unanticipated increase in activities that demanded the attention of the Board during the year.

**(v) Good and Services**

The Institute has been grappling with low funding and budget cut for several years more so to its core mandate which is supported by facilitation from this budget line. Further the cost of goods and services has risen significantly at the operation level and has contributed to this deficit.

**(vi) Donor Fund Expenses**

The positive balance is unutilized fund from donor projects which guided by project activities that spread to subsequent year(s).



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**(vii) Other payments (RTI)**

The negative variance is occasioned by under provision for the core mandate (RTI programs) due to budget cut and limited resources of the Institute.

**(viii) Development Grants**

The institute did not receive the full allocation of its budget from the parent ministry (Ministry of Trade, Industry and Cooperatives) totaling to Kshs.23.5 million that was approved in the initial budget.

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**NOTES TO THE FINANCIAL STATEMENTS**

**Note 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 30<sup>th</sup> 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. 1<sup>st</sup> 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 surplus. 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 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: -

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

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.

**(h) Insurance cost**

Annual insurance costs are accounted for wholly in the year of commencement of covers that expire within two months after end of financial year and prorated otherwise.

**(i) Retirement Benefits/Gratuity**

The Institute operates a Retirement Benefit Scheme which is managed by Trustee Board under the Retirement Benefits Regulations (RBA)

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

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.

**(j) 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.

**(k) Accounts receivable**

Accounts receivable are stated at anticipated realizable value.

**(l) Accounts payable**

Accounts payable are stated at nominal value.

**(m) 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 operating needs of the Institute. The basis difference in preparation and presentation 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.

**(n) 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.

**(o) Research and development costs**

The Entity expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Entity can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset

The ability to measure reliably the expenditure during development.

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

**(p) Unused Project grants**

Unused project fund surpluses are transferred to revenue reserves after completion of the projects.

**Note 2: Recurrent grants**

The institute receives grants from exchequer for personnel emoluments, operations and maintenance costs.

**Note 3: Development grants**

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

The total amount received for the year was Kshs.150, 711,188. This amount has been capitalized in full.

**Note 4: Deferred grant income**

Government grants and donations related to the acquisition of capital assets are recognized 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.

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**Note 5: Donor Funds received**

NB/ Donor funds received for the financial year was Kshs.44,720,898  
 Breakdown per project was as follows

Project	Amount Received	Utilized	Balance
	Kshs.	Kshs.	Kshs.
Blue Economy	15,993,200	7,919,675	8,073,525
National Research Fund	18,335,000	1,107,700	17,227,300
NGAAF (Kshs 8,080,000 for F/Y 2017/18 and Kshs 12,097,777 from previous F/Y	20,177,777	20,177,777	-
ICIPE	2,312,698	-	2,312,698
<b>Totals</b>	<b>56,818,675</b>	<b>29,205,152</b>	<b>27,613,523</b>

**Note 6: Rendering services**

	2017/2018 Kshs.	2016/2017 Kshs.
Rents and sundry revenue	6,106,630	9,101,965
Service fees	14,409,360	14,347,460
<b>Total</b>	<b>20,515,990</b>	<b>23,449,425</b>

**Note 7: Staff Costs**

<b>Other Income</b>	2017/2018 Kshs.	2016/2017 Kshs.
Increase in stock-General stores (Note15)	0	144,566

**Note 8: Staff Costs**

	2017/2018 Kshs.	2016/2017 Kshs.
Basic salary	254,132,230	250,146,290
House allowance	92,700,679	102,194,911
Other personal allowance	39,703,758	35,968,469
Medical Allowance	11,734,464	11,756,382
Medical Expenses	20,873,531	18,962,490
Passage and Leave	5,464,075	5,142,900
Training expenses	17,968,039	46,970,462
Group life & personal accident(GPA)	1,557,251	1,758,892
Fees commission and Honoraria	13,309,903	11,777,371
Gratuity, Pension and NSSF	52,161,272	49,996,682
<b>TOTAL</b>	<b>509,605,202</b>	<b>534,674,849</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 9: Board expenses, conferences & seminars**

	<b>2017/2018 Kshs.</b>	<b>2016/2017 Kshs.</b>
Sitting allowances	6,400,000	5,924,895
Travel costs	5,877,140	6,106,248
Hospitality & insurance costs	7,402,508	7,216,850
Conferences and seminars	3,495,385	3,455,385
Daily subsistence	6,621,320	6,017,000
Remuneration & honoraria	762,667	960,000
	<b>30,559,020</b>	<b>29,680,378</b>

**Note 10: Administrative Costs**

	<b>2017/2018 Kshs.</b>	<b>2016/2017 Kshs.</b>
Transport operation expenses	2,968,502	3,389,873
Postal and telecom expenses	10,151,113	17,921,324
Telephone expenses	7,393,768	11,465,767
Official entertainment	15,781,854	25,364,214
Electricity	8,367,017	11,256,135
Gas purchase	7,618,574	12,250,584
Travelling and subsistence	48,024,005	80,506,497
Water and conservancy	3,868,775	2,517,168
Publishing and printing	9,496,040	18,988,382
Purchase of consumables	8,864,218	17,691,592
Uniform and clothing	2,521,296	5,353,271
Library expenses	3,068,483	13,095,262
Purchase of stationery	13,095,451	21,507,596
Advertising and publicity	1,811,628	8,958,206
Show expenses and market research	-	13,978,792
Rent and rate(non-residential)	3,584,514	5,964,865
Computer expenses	13,727,609	25,226,927
Misc. and other charges	-	982,809
Contribution to other bodies	-	3,168,207
Contracted guards & cleaning services	10,335,253	12,292,427
Provision for audit fee	700,000	700,000
Laboratory chemicals	305,433	29,332,510
Contracted professional services	2,106,369	5,147,517
Refined fuels & lubricants-production	607,758	693,988
Maint. of office, furniture & equip.	7,332,729	12,850,436
Maint. of build. & stations-non res.	5,652,524	11,916,268
Maint. of plant machinery & equip.	7,937,987	23,101,500
Maint. exp-motor vehicles	6,250,762	5,112,246
Insurance of property	3,656,950	3,603,893
<b>TOTAL</b>	<b>205,228,612</b>	<b>404,338,256</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 11a: R & D Expenses**

	2017/2018 Kshs.	2016/2017 Kshs.
Research feasibility studies & projects	31,994,533	53,751,936

The expenditure on R& D projects amounting Kshs.31,994,533 includes travel expenses for the year is related to feasibility studies, project preparation, designs and supervision

**Note 11b: R & D Projects**

This is composed of expenditure amounting Kshs.160,424,504 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.

**R & D Projects**

	Kshs.
Value/Costas at 1/7/2017	132,395,771
Additions during the year	28,028,733
Amortization	-
NBV as at 30th.6.2018	160,424,504



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 12: Fixed Assets Schedule**

	LAND	WORK IN PROGRESS	BUILDINGS	MACHINERY & EQUIPMENT	MOTOR VEHICLES	FURNITURE & FITTINGS	COMPUTERS & EQUIPMENT	TOTAL
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
VALUE/COST as at 1/7/2017	26,865,000	2,666,276,383	1,088,221,014	664,829,730	76,114,232	41,014,257	53,904,028	4,617,224,644
Additions during the year	-	116,178,437	-	1,499,700	-	1,533,270	1,356,300	120,567,707
<b>TOTAL as at 30th June 2018</b>	<b>26,865,000</b>	<b>2,782,454,820</b>	<b>1,088,221,014</b>	<b>666,329,430</b>	<b>76,114,232</b>	<b>42,547,527</b>	<b>55,260,328</b>	<b>4,737,792,351</b>
Depreciation for previous year	-	-	21,764,420	69,202,388	-	2,208,358	1,403,279	94,578,445
Accumulated Depreciation b/f	-	-	98,452,604	276,842,262	76,114,232	28,748,898	47,066,692	527,224,688
Depreciation /Amort. for this year	383,786	-	21,764,420	68,623,891	-	2,211,955	2,615,716	95,599,768
<b>Total Depreciation</b>	<b>383,786</b>	<b>-</b>	<b>120,217,024</b>	<b>345,466,153</b>	<b>76,114,232</b>	<b>30,960,853</b>	<b>49,682,408</b>	<b>622,824,456</b>
Net Book Value as at 30:06:2018	26,481,214	2,782,454,820	968,003,990	320,863,277	0	11,586,674	5,577,920	4,114,967,895
Net Book Value as at 30:06:2017	26,865,000	2,666,276,383	989,768,410	387,987,468	0	12,265,359	6,837,336	4,089,999,956

The capital work in progress relates to ongoing RTI laboratories construction project in Nairobi South B and the Leather Annex in Kisumu. The expenditure for the project during the year amounted to Kshs.107,537,143 and Kshs.8,641,298 respectively.

**Note 13: Stores and Inventories**

	2017/2018 Kshs.	2016/2017 Kshs.
General Stores	1,199,513	1,933,761
Loose tools	-	1,383,431
<b>Total</b>	<b>1,199,513</b>	<b>3,317,192</b>

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**Note 14: Accounts Receivable**

	<b>2017/2018 Kshs.</b>	<b>2016/2017 Kshs.</b>
Ministry of Industrialization	10,000,000	0
National Industrial Training Authority	2,460,000	2,460,000
Traveling imprest (overseas)	0	503,343
Temporary imprest	592,780	1,040,758
Standing Imprest	910,000	0
Salary advance	344,098	675,384
Excess medical	4,719,351	3,374,390
Excess medical insurance	153,490	0
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	0	3,805,213
<b>TOTAL</b>	<b>20,077,576</b>	<b>12,756,945</b>

**Note 15: Cash and Bank balance**

	<b>2017/2018 Kshs.</b>	<b>2016/2017 Kshs.</b>
HQ(main Account)	46,162,477	63,481,678
LDC A/c	20,715	810,786
EDSC A/c	38,998	513,298
Kisumu imprest A/c	592,295	13,924,224
LSC A/c	69,877	643,209
BBK A/c	152,175	164,319
NIIC/Projects Account	7,863	5,754,432
Mpesa Account	281,662	0
<b>TOTAL</b>	<b>47,326,062</b>	<b>85,291,946</b>

**Note 16: Capital funds G.O.K**

The Kshs. 4,269,588,719 stated as Capital funds is the net accumulation of Development releases going way back to 1980 when the Institute began self-Accounting.

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**Note 17: Revenue Reserves**

These represents 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.

	<b>2017/2018</b> <b>Kshs.</b>	<b>2016/2017</b> <b>Kshs.</b>
Balance at the beginning	212,147,467	222,091,256
Additions during the year	6,578,774	5,821,915
Amount paid in the year	(2,114,748)	(15,765,704)
<b>Closing balance</b>	<b>216,611,493</b>	<b>212,147,467</b>

**Note 19: Accounts Payable**

	<b>2017/2018</b> <b>Kshs.</b>	<b>2016/2017</b> <b>Kshs.</b>
Payroll deductions	53,449,453	5,059,920
Miscellaneous deposits a/c	334,332	0
Other Creditors	92,096,790	14,744,884
<b>TOTAL</b>	<b>145,880,575</b>	<b>19,804,804</b>

**Note 20: Project funds**

	<b>2017/2018</b> <b>Kshs.</b>	<b>2016/2017</b> <b>Kshs.</b>
National Research fund	17,227,300	0
Blue Economy Project	8,073,525	0
ICIPE Project	2,312,698	0
WIFIP hyacinth project	-	546,500
ATPS-ICT project	-	158,891
Horticultural ADB	-	55,803
GTZ-Mini-hydro project	-	84,813
DANIDA-Fish leather/Arc welding	-	7,628,315
KAPP/ ILRI-Mushroom project	-	3,062,175
Lake and sea resources	-	89,910
NGAAF project	-	12,097,777
<b>TOTAL</b>	<b>27,613,523</b>	<b>23,724,184</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 21: Provisions**

	<b>2017/2018 Kshs.</b>	<b>2016/2017 Kshs.</b>
Provision for Audit fee at the beginning	1,954,000	1,950,000
Additional for the year	700,000	700,000
Provision utilized in the year	(1,396,000)	(696,000)
Balance at year-end	<b>1,258,000</b>	<b>1,954,000</b>

**Note 22: Recurrent and Development expenditure**

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

**Note 23: Related party transactions**

At the closure of the financial year the Institute had not received the allocated grants in full from the Ministry of Industry, Trade & Cooperatives thus Kshs.85,583,946 Recurrent grants and Kshs.23,538,812 Development grants had not been received. Kshs.10,000,000 was received later in July 2018. which was recognized in the reporting date as a receivable.

**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: Capital commitments**

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

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 27: Statement of Reconciliation between the Comparison of Budgeted and Actual Amounts and Statement of Financial Performance as At 30<sup>th</sup> June 2018**

**RECURRENT BUDGET**

<b><u>PARTICULARS</u></b>	<b>AMOUNT Kshs.</b>	<b>AMOUNT Kshs.</b>
Surplus/(Deficit) as per Statement of Comparisons of budget and actual amounts		(161,903,798)
<b>Less</b> Non Cash expenditure included in the SFP not in the SCBA:		
Provision for audit fees	(700,000)	
Decrease in stock-Amortization	(2,117,679)	(2,817,679)
Deficit as per Statement of financial performance		(164,721,477)

**Note 28: Statement of Reconciliation between the Comparison of Budgeted and Actual amounts And Statement of Financial Position As At 30<sup>th</sup> June 2018**

**DEVELOPMENT BUDGET**

<b><u>PARTICULARS</u></b>	<b>AMOUNT Kshs.</b>
Total expenditure as per Development budget	150,711,188
Retention money paid	(2,114,748)
Net increase in assets as per statement of financial position (Note 12)	148,596,440

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**APPENDIX I: 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.

<b>Ref. No on the external audit Report</b>	<b>Issue/Observation from Auditor</b>	<b>Management comments</b>	<b>Focal point person to resolve the issue (Name and designation)</b>	<b>Status: (Resolved/Not resolved)</b>	<b>Timeframe: (Put a date when you expect the issue to be resolved)</b>
1 1.1	<b>Accounts Receivable</b> It was observed that included in the Accounts receivable was Ksh2,460,000 debt that had not been collected for considerably long time from National industrial training Authority NITA for reimbursement of claims lodged with the Authority.	Proper policy/debt collection mechanism to be put in place and the institute to re-initiate a follow-up. Several reminders have been sent in the past.	Director/Board of Directors	Not resolved	Not definite
1.2	Also observed that Ksh 3,374,390 remained outstanding in respect of staff excess medical expenses upon which the recoveries were yet to be effected and some had since passed on.	In complying with the one-third salary rule the affected staff could not be subjected to further deductions. However some recoveries were made from Life insurance benefits as the Institute seek ways of enhancing the staff medical scheme.	Director/Board of Directors	Not resolved	Not definite
2 2.1	<b>Property, Plant and Equipment</b> The Audit observed that property, plant and Equipment valuation of the Institute was done more than two decades ago and thus the balance may not be fairly stated.	The Institute to consider budgetary allocation for the purpose in the subsequent year for property in Kisumu and Nairobi South C.	Director/Board of Directors	Property in Nairobi South B that includes land and construction works has since been revalued.	Not definite

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**PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS (Continued)**

Ref. No on the external audit Report	Issue/Observation 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)
2,2	<p>The audit observed that the institute entered into a contract with a local company for supply, installation, training and commissioning of leather processing and production machinery which had partnered with an Italian firm for the contract but only the local firm alone had signed the contract contrary to section 2.1.3(i) of the contract agreement.</p> <p>Further, contrary to section 2.1.3(ii) of the contract agreement both companies did not submit audited accounts for the previous three years as required by the bidding requirement on financial capability. In particular the first company did not meet the mandatory requirement considering it was registered on 9 May 2012 and was yet to attain three years at the time of tendering.</p> <p>Whereas the equipment was destined and delivered at Kisumu regional offices, an audit verification at the station in October 2016, revealed that some of the machines were not installed and commissioned due to lack of space.</p>	<p>Reference made to the same section 2.1.3 (iii) stated that one of the partners shall be nominated as a lead contractor and this authorisation shall be evidenced by submitting a power of attorney signed by legally authorised signatories of all the partners and this was done and submitted alongside the tender. Ms Precision Civil Engineering was appointed to that effect.</p> <p>Treasury circular No.1/2015 on implementation of 30% reservations for youth, women and persons with disability in which target groups were not to be subjected to further pre-qualification.</p> <p>The initial plan was to set up a pilot plant for training at the facility. Along the way the Government priority changed to have a facility that would serve the western sub-region in value addition to leather. A budget for the same</p>	Director/ Board of directors	Resolved	N/A

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	<p>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.</p>	<p>was provided for construction of extra space. The construction of the leather annex is currently on-going and near completion,</p>			
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Signature:  .....  
 Director/CEO

Date: 20/06/2019 .....

Signature:  .....  
 Chairperson

Date: 20/6/2019 .....



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**APPENDIX 111: INTER -ENTITY TRANSFERS**

<b>KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE</b>				
<b>Breakdown of Transfers from the State Department of Industry</b>				
<b>a</b>	<b>Recurrent Grants</b>	<b>Bank Statement Date</b>	<b>Amount Kshs.</b>	<b>F/y to which the Amount Relates</b>
	1 <sup>st</sup> Quarter	22/09/2017	163,583,944.75	2017/18
	2 <sup>nd</sup> Quarter	04/12/2017	163,583,944.75	2017/18
	3 <sup>rd</sup> Quarter	13/02/2018	163,583,944.00	2017/18
	4 <sup>th</sup> Quarter	27/06/2018	78,000,000.00	2017/18
	4 <sup>th</sup> Quarter	16/07/2018	10,000,000.00	2017/18
	<b>Development Grant</b>			
	1 <sup>st</sup> Quarter	13/10/2017	34,218,750.00	2017/18
	2 <sup>nd</sup> Quarter	20/11/2017	34,218,750.00	2017/18
	1 <sup>st</sup> & 2 <sup>nd</sup> Quarter	20/11/2017	18,750,000.00	2017/18
	3 <sup>rd</sup> Quarter	10/04/2018	34,218,750.00	2017/18
	4 <sup>th</sup> Quarter	25/05/2018	14,652,469.00	2017/18
	4 <sup>th</sup> Quarter	27/06/2018	14,652,469.00	2017/18
	<b>Donor Receipts</b>			
	Blue Economy Project	05/07/2017	11,851,000.00	2017/18
	Blue Economy Project	05/07/2017	4,142,200.00	2017/18
	NGAAF Project	31/07/2017	8,080,000.00	2017/18
	ICIPE Project	22/12/2017	2,312,698.00	2017/18
	National Research Fund Project	26/01/2018	18,335,000.00	2017/18

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

Ag. AD-Finance, KIRDI

Principal Accounts Controller,  
 Ministry of Industry trade &  
 cooperatives

Sign:  20/06/2019

Sign: 

END OF REPORT