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

**AUDIT REPORT FOR THE YEAR ENDING 30<sup>TH</sup> JUNE 2014**

REPUBLIC OF KENYA



**KENYA NATIONAL AUDIT OFFICE**

**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

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

**FOR THE YEAR ENDED  
30 JUNE 2014**





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

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2014**

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



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**NAMES AND ACRONYMS**

<b>OTA</b>	Coffee Ochratoxin A project funded by European Union
<b>UNIDO</b>	United nations Industrial development Organization
<b>KAPP</b>	Kenya Agricultural productivity project of KARI
<b>IFS</b>	International Foundation for science
<b>WIFIP</b>	Development of fertilizer from water hyacinth in lake region Project
<b>ATPS</b>	Africa Technology policy studies Network
<b>ADB</b>	Africa Development Bank
<b>DANIDA</b>	Danish Industrial development agency
<b>MOIED</b>	Ministry of industrialization and enterprise development
<b>G.O.K</b>	Government of Kenya
<b>R &amp; D</b>	Research and Development



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(KIRDI) is a statutory research organization established under the Science and Technology Act Cap 250, 1979 (now repealed and replaced by the Science, Technology and Innovation Act 2013).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

### **(b) Principal Activities**

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

### **(c) Key Management**

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

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

### **(d) Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2014 and who had direct fiduciary responsibility were:



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S.N	Designation	Name
1	Director , Chief Executive Officer	Dr. M.C.Z Moturi
2	Deputy Director, Research Technology And Innovation	Dr. Kenneth Chelule
3	Ag. Head KIRDI Enterprise Services & Chief Research Scientist	Dr. Moses Makayoto (OGW)
4	Deputy Director - Corporate Services	Mr. James Nyagah
5	Assistant Director- Finance	Ms. 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 Committee, Audit Committee, Human Resources and Administration Committee and Management Committee.

##### **Research Technology and innovation Committee**

This committee consisted of six members. The committee was chaired by Prof. W. Kogi Makau. It had a responsibility to oversee the institutes research project plans, Technology and Research. It also reviews projects proposals. Other members of the committee include Prof. Jacob Midiwo, Dr. David Njubi, Prof Micheal Lokoruka, Ms. Muya, and Dr. M.C.Z. Moturi.

The committee held regular meetings during the year.

##### **Finance committee**

This committee consisted of six members. The committee was chaired by David Githendu. 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, Mr. Elema Isako Fila, Mr. David Gichuhi, Mrs. Margaret Onyimbo and Ms. Nancy Muya. The committee held regular meetings during the year.

##### **Audit Committee**

This committee consisted of eight members. The committee was chaired by Mr. John Migiro. 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; overseeing financial reporting and reviewing the accounting principles, policies and practices adopted in the preparation of the financial statements. Other members of the committee include Prof. Kogi-Makau, Mr. David Gichuhi, Ms. Margaret Onyimbo, and Ms. Nancy Muya.



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The committee held regular meetings during the year.

#### **Human Resources and Administration Committee**

This committee consisted of nine members. The committee was chaired by Prof. Tuikong Serem. 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 of the committee include Prof. Jacob Midiwo, Mr. John Migiro, Elema Isako Fila, David Githendu, David Gichuhi, Prof. Micheal Lokuruka, Ms. Nancy Muya and Dr. M. C. Z Moturi. The committee held regular meetings during the year.

#### **Management Committee**

The Management Committee is the link between the Board and management. The committee assists the Managing Director in giving overall direction to the institute. The Committee is responsible for the implementation of operational plans and the annual budgets. It is also responsible for the periodic review of operations, strategic plans, proposals, identification and management of key risk and opportunities. The Committee also reviews and approves guidelines for employees' remuneration.

#### **(f) Institute's Headquarters**

P.O. Box 30650 00200  
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](mailto:dir@kirdi.go.ke)  
Website: [www.go.ke](http://www.go.ke)

#### **(h) Institute's Bankers**

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



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**(i) Independent Auditors**

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

**(j) Principal Legal Adviser**

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

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

Maangi Kitonga & Co Advocates  
P. O. Box 41880 - 00100,  
NAIROBI





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## II. THE BOARD OF DIRECTORS

DIRECTOR	PROFILE
 <p><b>Eng. Dr Siphila Wanjiku Mumenya (57)</b> Chairperson of the Board of Directors</p>	<p>Eng. Dr. Mumenya holds PhD (Civil Eng.) from the University of Cape Town, MSc. (Civil Eng. Structures) from the City University, London and BSc. Civil Eng. (Hons) from the University of Nairobi. She has more than 30 years of experience in mentorship, administration, management and leadership in the field of civil engineering, in the public and private sector. She has more than 20 years of experience in research, consultancy and university teaching and has managed a wide range of civil engineering projects. She has published several articles in international journals and is currently Senior Lecturer, Department of Civil and Construction Engineering, University of Nairobi.</p>
 <p><b>Prof. Tuikong D. K. Serem, OGW (63)</b> Member of the Board of Directors</p>	<p>Prof. Serem holds a Ed.D degree from the University of Wyoming, U.S.A, M.A in Education Administration and B. A. in Social Studies and Education. He has had a long career in University Education, Administration and Management and has previously served as Principal and Deputy Vice Chancellor (Maseno University) and Principal and Ag. Vice Chancellor (Maasai Mara University), among others. Prof. Serem is a Charter member of the East African Chapter of the Association of Third World Studies (ATWS), and is currently a Professor of Education, at Moi University.</p>



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**Prof. Michael Lokuruka (59)**  
Member of the Board of  
Directors.

Prof. Lokuruka holds Ph.D (Food Science) degree from Cornell University, USA and MSc (Food Science) from the University of Reading, UK. He has several years of experience in research and university teaching and has published several articles in refereed journals. He is an Associate Professor of Food Science at Karatina University and a professional member and honorary secretary, Kenya Institute of Food Science and Technology. Prof. Lokuruka currently serves as a Commissioner of the Public Service Commission of Kenya.



**Mr. Elema Isako Fila (53)**  
Member of the Board of  
Directors.

Mr. Fila holds BSc (Hons) degree in Applied & Environmental Geology, and a Certificate in water supply technology. He has had several years of experience in public and private sector in the areas of water resource management and oil & gas exploration. He is currently the Country Community Relation Coordinator at Tullow Kenya B.V., and Community Development Consultant (Africa Oil Kenya Ltd.) on oil exploration in Northern Kenya.



**Mr. John M. Migiro (67)**  
Member of the Board of  
Directors.

Mr. Migiro holds a M.Ed (Administration) degree from Queen's University, Kingston, Ontario, Canada, M.A. (Curriculum Development) and B.Ed. from University of Nairobi. He has more than 30 years of experience in education and private sector, offering expertise in strategy development, capacity building, monitoring and evaluation and business management skills, among others. He is a member of the Association of African Public Administrators and Managers (AAPAM), Institute of Management Consultancy and an Associate Consultant (on need basis ) at Federation of Kenya Employers (FKE). Mr Migiro is currently the Director and Principal Managing Consultant, Likia Consulting Ltd.



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**Prof. Wambui Kogi-Makau (62)**  
Member of the Board of  
Directors.

Prof. Kogi-Makau holds a PhD (Human Nutrition) from the University of London, M.Sc. (Community Health) and B.Ed. from University of Nairobi. She has more than 30 years of professional experience in the fields of human nutrition and social development. She has mentored, supervised, and undertaken administrative, management and leadership assignments while in the service of the University of Nairobi. She has several years of experience in research and university teaching and has published several articles in international journals. Prof. Kogi-Makau is currently an Associate Professor, Department of Food Technology and Nutrition, University of Nairobi.



**Prof. Jacob Ogweno Midiwo (61)**  
Member of the Board of  
Directors.

Prof. Midiwo has a PhD in Organic Chemistry from the University of Maryland, USA and B.Sc (Hons) in Chemistry from University of Nairobi. He has more than 30 years of experience in research, university teaching and management, and has published several articles in international journals. He is a Member of the Kenya Chemical Society and has received several international awards for his contribution to innovative research and development. Prof Midiwo is currently a Professor of Chemistry at the University of Nairobi.



**Mr. David M. Githendu (44)**  
Member of the Board of  
Directors.

Mr. Githendu holds MBA (Operations Management) and BSc, (Hons) Civil Eng. from the University of Nairobi. He has held various senior management positions in various organizations and he is currently the Regional Manager Grundfos Pumps, where he is involved in business development and establishment of distributors and service partners in East, West and Central Africa. He is a member of the Institute of Engineers of Kenya (IEK) and the Marketing Society of Kenya (MSK).



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**Ms Nancy Muya (52)**  
Alternate Member of the Board  
of Directors.

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



**Dr.**

**David Njubi (50)**  
Alternate Member of the Board  
of Directors.

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

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



**Mrs. M. Onyimbo (58)**  
Alternate Member of the Board  
of Directors.

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



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**Mr.**

**David Gichuhi (54)**  
Alternate Member of the Board  
of Directors.

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



**Dr. M.C.Z. Moturi (61)**  
Director / Secretary to the  
Board

Dr. Moturi holds PhD degree (Environ. Sc), from Jawaharlal Nehru University, MSc (Chemistry) from Queen's University, Kingston, Ontario, Canada and BSc (Hons) Chemistry, from the Polytechnic of North London, UK. He has more than 30 years of experience in public service and has held various senior positions in research, technology and innovations programmes. He has served in various government task forces responsible for developing specialized policies and in the Boards of; Kenya Industrial Property Institute (KIPI) as Chairman of the HR Committee; COMESA- Leather and Leather Products Institute (COMSEA-LLPI, Addis Ababa) as Director and Chairman of the Board and Member of the Board (representing E. Africa) in the World Association of Industrial and Technological Research Organizations (WAITRO). He is currently the Director/CEO of the Kenya Industrial Research and Development Institute (KIRDI).






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## MANAGEMENT TEAM

MEMBER	PROFILE
 <p><b>Dr. M. Charles Moturi</b> Director / Secretary to the Board</p>	<p><b>DR. M. CHARLES MOTURI (61)</b> holds PhD degree (Environ. Sc), from Jawaharlal Nehru University, MSc (Chemistry) from Queen's University, Kingston, Ontario, Canada and BSc (Hons) Chemistry, from the Polytechnic of North London, UK. He has more than 30 years of experience in public service and has held various senior positions in research, technology and innovations programmes.</p>
 <p><b>Dr. Kenneth Chelule</b> Deputy Director Research Technology and Innovation</p>	<p><b>DR. KENNETH CHELULE (44)</b> 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&amp;D), Product Certification (CE Marking) and Product Commercialisation. He is a Member of the International Society for Biomechanics (ISB).</p>
 <p><b>Dr. Moses Makayoto (OGW)</b> Chief Research Scientist/ Ag. Head KIRDI Enterprise Services</p>	<p><b>DR. MOSES MAKAYOTO (61)</b> is a holder of PhD degree in Chemical Engineering from the Norwegian University of Science and Technology, MSc degree, Chemical Engineering, Dar-Es-Salaam University, Tanzania, and a BSc (Hons), Chemistry, University of Nairobi. He is a Chartered Chemical Engineer and Fellow of the Institution of Chemical Engineers, United Kingdom. He has over 30 years' experience in research, academia, policy and management in the areas in Chemical Engineering and Biotechnology</p>



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**Mr James Nyagah**  
**Deputy Director Corporate Services**

**MR. JAMES NYAGAH** (60) holds a bachelor of Textiles Degree from University of Bombay in India and is a member of various Professional Bodies including The Quality Management Association of Kenya and Kenya Institute of Management (KIM).

He has over 30 years experience in textile engineering and quality Systems Management, gained in various public and private organisations.



**Ms. Floice Mukabana**  
**Assitant Director - Finance**

**MS. FLOICE MUKABANA** (39) holds a law degree from the University of Nairobi and an MBA from Jomo Kenyatta University and is a member of several professional bodies including the Institute of Certified Public Accountants (ICPAK), Institute of Certified Public Secretaries (ICPSK) and the Law Society of Kenya(LSK). She has over 10 years experience in finance and accounting gained in telecommunications and in the Public Sector.



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

**MR. JAIRUS OMBUI** (53) holds a Bachelor of Commerce Degree (Business Administration) from University of Poona, India and an MBA from the Management University of Africa. He is a member of the Institute of Human Resource Management, Kenya (IHRM) and has over 20 years experience in the Public Service.



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**Mr. John Kahura**  
**Principal Internal Auditor**

**MR. JOHN KAHURA** (56) holds a Bachelor of Business Administration (Accounting Option) from St. Pauls University and is a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He has over 30 years' experience in Finance and Accounting gained in the Public Service.



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### III. CHAIRMAN'S STATEMENT



Vision 2030 calls for intensified application of Science, Technology & Innovation (ST&I) to raise productivity and efficiency levels across the economic, social and political pillars of national development. As a result, the ST&I policy framework has continued to be implemented through the identification, acquisition, transfer, diffusion and application of relevant ST&I knowledge in all sectors of the economy. KIRDI has a major role to play in identification, acquisition, transfer and application of ST&I

that will drive the industrialization of the country which has been well captured in the the Medium Term Plan II.

To this end the institute continued to implement various infrastructural projects under the vision 2030 flagship project - "transformation of KIRDI into a globally competitive research institution" during the year under review. In particular the institute continued the construction of ultra-modern Research, Technology and Innovation laboratories in Kisumu and Nairobi, South B. These research laboratories once completed are expected to transform tremendously the scope and quality of the institute's research, technology and innovation outputs.

During the 2013/2014 financial year the institute continued to develop value addition technologies and transfer of these technologies to Micro Small and Medium Enterprises (MSMEs) through establishment and operationalization of technology demonstration and training pilot plants, common manufacturing facilities and Incubation facilities aimed at contributing to employment and wealth creation for the nation.

Signature: .....

Ag. Chairperson: PROF. T.D.K SEREM, OGW

Date: 18<sup>th</sup> March, 2015.....



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## REPORT OF THE CHIEF EXECUTIVE OFFICER



### *Background*

I am honoured to present the KIRDI Financial Report for the year ended 30<sup>th</sup> June 2014. It is with great pleasure that we present the major strides made by this great organization as we support the National Industrialization agenda. KIRDI is a national industrial research institute whose mandate is to undertake industrial research, technology and innovation and disseminate findings that will have a positive impact on national development. The history of KIRDI dates back to 1942

when the colonial government set up a central laboratory in Kabete Nairobi, the laboratory expanded its mandate and was taken up by the East Africa Community (EAC) and renamed East Africa Industrial Research Organization (EAIRO). After the collapse of the EAC in 1977 the National Industrial Research Complex under the Ministry of Commerce & Industry took up its operations and in 1979, an Act of Parliament establishing the National Council for Science & Technology (NCST) was amended to establish five Research Institutions, KIRDI being one of them.

### *Our Operating Environment*

KIRDI's Mandate is currently governed by the Science, Technology and Innovation (STI) Act No. 28 of 2013. The Institute undertakes its mandate in conjunction with its parent Ministry - The Ministry of Industrialization and Enterprise Development. The Institute also collaborates with development partners including UNIDO; Government of Japan; DANIDA as well as Universities, other research institutions and private companies.

### **Key Development Programmes**

#### **(a) Vision 2030 Flagship Project**

During the 1<sup>st</sup> Medium Term Plan for Vision 2030, the Government of Kenya adopted the transformation of KIRDI as a flagship project within the Manufacturing Sector.

Thus, the transformation of KIRDI into a World Class Industrial Research Institution focuses on: deliberate capacity building initiatives, attracting and retaining high calibre professionals, upgrading of research equipment and facilities, modernization of the Institute's infrastructure, enhancing collaboration, upgrading the quality and scope of research, technology and innovation programmes and activities, benchmarking the Institute with other similar research organizations and improving the financial sustainability of the Institute, among others.

During the financial year, the Institute continued to focus on the transformation activities and programmes and is in the process of establishing state of the art Research Technology, and Innovation Laboratories in Nairobi and Kisumu. As at the



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end of the financial year, the facilities completions were Kisumu 96% and Nairobi 34%.

It is envisaged that the facilities will serve as a model Research Technology and Innovation Center nationally, regionally and internationally in areas such as Nano-technology, Energy, Material testing, Chemical technology, Biosciences, Leather technology, Textile technology, Natural products technology, Ceramics and Building materials, Electrical and Electronics engineering, Bio-medical engineering, Environmental sciences, Computer Aided Design (CAD) and Computer Aided Manufacturing (CAM), Metrology, Food technology among others.

**(b) Value addition through Agro-processing**

This programme seeks to promote value addition of local raw material through establishment of pilot plants in areas where these raw materials exist. The pilot plants offer opportunities for technology transfer through technology demonstrations, training, common manufacturing and business incubation. During the year under review the institute operationalized agro-processing pilot plants in different parts of the country: Banana Processing Pilot Plant in Kisii County, Pineapple Processing Pilot Plant, Leather Tannery in Wamunyu, Machakos County and Soya processing pilot plants in Malakisi- Kakamega County, Migori County and Kisumu County.

**(c) Research Technology and Innovation Programme**

Core to the Institute's mandate is the continued implementation of research, technology and innovation to generate new technologies and products. This is implemented through the following divisions; Energy; Environment; Chemical engineering; Food Technology; ICT; Leather; Textile technology division; Mechanical engineering; electrical engineering and; ceramics and building material division. During the period, the Institute completed 17 research projects on industrial and allied technologies.

**(d) Common Manufacturing Training and Incubation Programme**

Whereas the Institute has a mandate to build the technical capacity of entrepreneurs in the area of value addition to agro-produce and other raw materials, experience has demonstrated that entrepreneurs are unable to translate these technologies to sustainable growth oriented enterprises due to lack of business skills and or basic equipment. Further it has been observed that enterprises that go through the business incubation process have an 80% chance of surviving the first two years of startup whereas those that do not have only a 20% chance. To address this, the Institute offers common manufacturing, training and business incubation services that allow SMEs to gain the necessary technical and business skills while having access to production machinery and equipment that would otherwise be too costly for them. This reduces the learning curve of the startup and thus the cost of the business start-up.



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### **Operational Systems**


The Institute has maintained ISO 9001:2008 certification during the period under review. Our quality management system ensures efficiency and effectiveness of the institute's operations and improved service delivery to citizens.

### **Challenges**

During the year under review, the Institute faced challenges relating to delayed disbursements and budgetary cuts. The development budget was cut to the tune of Kshs.145,275,000, while the first quarter releases for both development and recurrent were received in the second quarter. Some fourth quarter releases to the amount of Kshs.178,255,000 were made in the month of July, thus, after the financial year was over. The above challenges led to delayed execution of some programmes. However, despite the above challenges, the Institute managed to achieve a compliance budgetary level of 90.4% against a target of 100% for the year under performance contracting.

### **Outlook 2014/15**

In the forthcoming financial year (2014/15) period, the Institute has planned to undertake equipping of the newly establishment Research Technology and Innovation Laboratories in Kisumu with state of the art equipment, Complete the construction of a state of the art research facility in Nairobi, South B and undertake Research, Technology and innovation projects that in the identified government priority areas namely: Leather, Textile and Agribusiness.

Signature:   
Director: DR. M.C.Z. MOTURI

Date: 18<sup>th</sup> March 2015



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## **STATEMENT ON CORPORATE GOVERNANCE FOR THE YEAR ENDED 30 JUNE 2014**

The Board of the institute is responsible and accountable to the Government of Kenya, through the Ministry of Industrialization and Enterprise Development, in ensuring that the institute complies with the law and the highest standards of corporate governance.

Corporate governance deals with the way companies are led and managed, the role of the Board of Directors and a framework of internal controls. The directors are ultimately accountable to all stakeholders for ensuring that the institutes business is conducted with high standards of corporate governance.

### **The Board**

There are fourteen members of the Board all of whom are non-executive except for the Chief Executive who is also the secretary to the board.

The principal responsibility of the Board is to establish the long term goals of the institute and to ensure that effective plans are developed and implemented. The members of the Board exercise their best judgment to act in what they reasonably believe to be in the best interests of the institute and its stakeholders. In discharging that obligation, Members rely on the honesty and integrity of the institute's management, senior staff and its external advisors and auditors.

All directors are appointed by the cabinet secretary who at the time is in charge of the parent ministry through a gazette notice for a term of three years from the date of gazettment which is renewable once. The chairperson of the board is appointed by the President of the Republic, similarly, through a gazette notice for a renewable term of three years.

On appointment, the board of directors receive an induction covering the company's operations. The directors are advised of the legal, regulatory and other obligations of a director of state owned corporations. All of the directors have access to chief executive officer who also is the secretary to the board. He is responsible for ensuring that Board procedures are followed and that applicable laws and regulations are complied with.

### **The main responsibilities of the board of directors include:**

- ✓ Reviewing the institute's vision, mission, values and developing and adopting appropriate policy and strategy;
- ✓ Putting in place management structures [organization, systems and people] to achieve those objectives;
- ✓ Setting targets and monitoring performance;
- ✓ Guiding the implementation of strategic decisions and actions and advising management as appropriate;
- ✓ The review and adoption of annual budgets for the financial performance of the institute and monitoring the institute's performance and results;



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- ✓ Management of risk, overseeing the implementation of adequate control systems and relevant compliance with the law, governance, accounting and auditing standards;
- ✓ Ensuring the preparation of annual financial statements and reports, communication, and disclosure of information to stakeholders; and
- ✓ Delegating authority to the head of the institution, as Chief Executive Officer, for the corporate, financial and personnel management of the institution; and to establish and keep under regular review the policies, procedures and limits within which such management functions shall be undertaken by and under the authority of the head of the institution.

#### **BOARD MEETINGS**

Board and its committees meet regularly in accordance with institutional requirements. Notice of board meetings is given in advance in accordance with the institutional statutes and general by-laws and is distributed together with the agenda and board papers to all the directors beforehand. During the year, the board convened and held three ordinary meetings and seven special board meetings.

#### **Delegation of Authority**

##### **Board Sub Committees**

The Board works through various sub-committees which include; The Research Technology and Innovation committee, Finance Committee, Audit Committee, Human Resources and Administration Committee and Management. The Board conducts a Board evaluation annually to determine its strengths and effectiveness as a Board, as well as the effectiveness of individual directors. The Board committees assist the Board in discharging its responsibilities. The committees have clear defined roles and terms of reference and charters that have been approved by the Board. The committees are chaired by nonexecutive directors.

Details of these committees and membership are shown below.

##### **Research Technology and Innovation (RTI) Committee**

This committee consisted of six members. The committee was chaired by Prof. W. Kogi Makau. It had a responsibility to oversee the institutes research project plans, Technology and Research. It also reviews projects proposals. The committee has four scheduled meetings each year and held two meetings during the year.

##### **The members of the committee are:**

Prof. W. Kogi-Makau - Chairperson, RTI Committee

Prof. Jacob O. Midiwo

Dr. David Njubi

Prof. M. Lokuruka

Ms. Nancy Muya

Dr. M.C.Z. Moturi



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### **Finance committee**

This committee consisted of six members, and was chaired by Mr. David Githendu. This Committee had oversight on all financial issues including budgets, financial reporting process and controls, and procurement. It also reviews proposals for capital developments. In addition the committee appraises capital budgets for recommendation to the Board. The committee has four scheduled meetings each year.

### **The members of the committee:**

Mr. David Githendu - Chairperson, Finance committee  
Prof. T.D.K. Serem  
Mr. Elema Isako Fila  
Mr. David Gichuhi  
Ms. Margaret Onyimbo  
Ms. Nancy Muya  
Dr. M.C.Z. Moturi

### **Audit Committee**

This committee consisted of eight members. The committee was chaired by Mr. John Migiro. 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; overseeing financial reporting and reviewing the accounting principles, policies and practices adopted in the preparation of the financial statements. The Committee has four scheduled meetings a year and held three meetings during the year.

### **The members of the Committee:**

Mr. John Migiro -Chairperson, Audit committee  
Prof. W. Kogi-Makau  
Mr. David Gichuhi  
Ms. Margaret Onyimbo  
Dr. David Njubi  
Ms. Nancy Muya  
Mr. John Kahura / Secretary of the Audit Committee

### **Human Resources and Administration Committee**

This committee consisted of nine members. The committee was chaired by Prof. T.D.K. Serem. 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. The committee has four scheduled meetings during the year and held four meetings during the year.



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### **The Members of the Committee:**

Prof. T.D.K. Serem (OGW) - Chairperson, HR&A Committee

Prf. Jacob O Midiwo

Mr. John Migiro

Mr. Elema Isako Fila

Mr. David Githendu

Mr. David Gichuhi

Ms. Nancy Muya

Prof M. Lokuruka

Dr. M.C.Z. Moturi

### **Management Committee**

The Management Committee is the link between the Board and management. The committee assists the Managing Director in giving overall direction to the institute. The Committee is responsible for the implementation of operational plans and the annual budgets. It is also responsible for the periodic review of operations, strategic plans, proposals, identification and management of key risk and opportunities. The Committee also reviews and approves guidelines for employees' remuneration. The committee meets regularly.

### **Directors' remuneration**

The aggregate amount of emoluments paid to Directors is disclosed in Note 17 to the financial statements for the year ended 30<sup>th</sup> June 2014.

### **Board Performance Evaluation**

Under the guidelines issued by the State Corporations Advisory Committee Board charter, the Board is responsible for ensuring that a rigorous evaluation is carried out of its performance, and that of its committees and individual directors. The evaluation is conducted annually and the results of the evaluation are provided to the Ministry of Industrialization and Enterprise Development and State Corporations Advisory Committee (SCAC).

### **Risk Management and Internal Control**

Management in consultation with the board committees is responsible for the institute's day-to-day overall risk management to minimize potential adverse effects on its financial performance while the board is responsible for the institutes system of internal control and for reviewing its effectiveness. The institute has an ongoing process of identifying, evaluating and managing significant risk inherent in its business, by risk management department. This process is also reviewed by the internal auditor. The internal auditor reports administratively to the Managing Director and functionally to the Audit Committee. As part of the independency required, the internal Audit annual work program and budgets are separately approved by Audit committee, which also reviews and approves Audit reports and internal audit annual report. The Institute has in place a chain of controls which include, but are not limited to, an annual budgeting



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process, a regular review of strategic initiatives, a well-defined organizational structure which is kept under regular review by the Board and a review of quarterly financial and operating information by management and the board.

#### **Code of Conduct**

The Board has approved a Code of Ethics, which sets out the institute's core values relating to the lawful and ethical conduct of services provided.

#### **Stakeholder Relations**

We Endeavour to engage stakeholders clearly, honestly and respectfully, and are committed to timely and meaningful dialogue with all of them.

#### **Corporate Social Responsibility Statement**

The institute recognizes its obligations to act responsibly, ethically and with integrity in its dealings with staff, customers, neighbours and the environment as a whole. To this end the institute minimizes health and safety risks to staff and visitors through the implementation and management of a management of safety requirements. The institute has a separate environmental policy statement clarifying its commitment to delivering a net positive impact on the environment through its environment divisions. The Institute as well donates management time to promote sustainability both within the industry and within the environmental management profession.



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#### **IV. REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended June 30, 2014 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, 2014 are set out on page 24 of this report

##### **Directors**

The members of the Board of Directors who served during the year are shown on page on 5.

##### **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

  
Dr. M.C.Z. Moturi  
CEO and Secretary to the Board  
Nairobi

Date: 18<sup>th</sup> March 2015



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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, 2013. 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>, 2014, 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.

Signature:   
Ag. Chairperson: PROF. T.D.K SEREM, OGW

Date: 18<sup>th</sup> March, 2015.

Signature:   
Director/CEO: DR. M.C.Z MOTURI

Date: 18<sup>th</sup> March 2015



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**V. REPORT OF THE INDEPENDENT AUDITORS ON THE INSTITUTE**

# REPUBLIC OF KENYA



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Mail: oag@oagkenya.go.ke  
Website: www.kenao.go.ke

P.O. Box 30084-00100  
NAIROBI

## KENYA NATIONAL AUDIT OFFICE

### REPORT OF THE AUDITOR-GENERAL ON KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE FOR THE YEAR ENDED 30 JUNE 2014

#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Industrial Research and Development Institute set out on pages 25 to 40, which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free material misstatement, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229 (7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk

assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

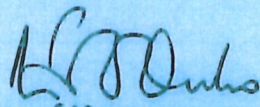
### **Basis of Qualified Opinion**

#### **Financial Performance**

The Institute recorded a loss of Kshs.101,629,256 against a loss of Kshs.33,923,910 during the previous period which translates to a substantial decline of Kshs.67,345,346 or about 198.52% drop in financial performance for the year ended 30 June 2014. Further, the current liabilities of Kshs.456,784,985 exceeded the current assets of Kshs.212,081,168 leading to a negative working capital of Kshs.244,703,817 (2013 – negative working capital of Kshs.33,914,085). The Institute's going concern status is doubtful problem and its continued existence is dependent on Government and creditors support.

#### **Qualified Opinion**

In my opinion, except for effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Institute as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Science and Technology Act, Cap 250 of the Laws of Kenya.



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

Nairobi

8 April 2015



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**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30TH JUNE 2014**

	NOTES	2013/2014 KSHS.	2012/2013 KSHS. Restated
<b>REVENUE</b>			
<b>Income from non-exchange transactions</b>			
Re-Current Grants	12	581,300,000	541,600,000
Development grants	13	<u>84,685,376</u>	<u>224,324,144</u>
		<b>665,985,376</b>	<b>765,924,144</b>
<b>Income from exchange transactions</b>			
Rendering of services	14	29,883,508	33,935,410
Others	15	<u>191,972</u>	<u>-</u>
		<b>30,075,480</b>	<b>33,935,410</b>
<b>Total revenue</b>		<b><u>696,060,856</u></b>	<b><u>799,859,554</u></b>
<b>EXPENSES</b>			
Staff Cost	16	493,086,668	446,091,677 *
Board Exp. & Director's remuneration	17	19,084,743	24,834,660
Administrative Expense	18	143,533,388	129,610,667 *
Insurance Expense	19	3,549,133	3,842,375
Research feasibility studies and projects	20	40,091,261	128,523,572 *
Traveling And Subsistence Expenses	21	45,853,295	44,299,005
Depreciation Expenses	2	47,981,340	48,275,841
Decrease in stock	6	<u>4,150,284</u>	<u>8,305,667</u>
		<b>797,330,112</b>	<b>833,783,464</b>
<b>SURPLUS/(DEFICIT) FOR THE YEAR</b>		<b><u>(101,269,256)</u></b>	<b><u>(33,923,910)</u></b> *



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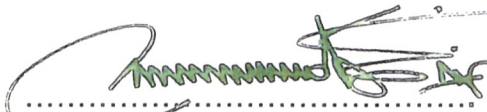


**STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2014**

ASSETS	NOTES	2013/2014	2012/2013
			<b>Restated</b>
Property, Plant and Equipment	2	2,327,163,529	1,235,533,075
R & D projects	3	<u>132,395,771</u>	<u>132,395,771</u>
		<b><u>2,459,559,300</u></b>	<b><u>1,367,928,846</u></b>
<b>CURRENT ASSETS</b>			
Accounts Receivable	4	184,719,189	76,609,714
Cash and Cash Equivalents	5	10,022,175	31,634,362 *
Stores and inventories	6	17,339,804	21,298,116
Total		<u>212,081,168</u>	<u>129,542,192</u>
<b>TOTAL ASSETS</b>		<b><u>2,671,640,468</u></b>	<b><u>1,497,471,038</u></b>
<b>ACCUMULATED FUNDS &amp; LIABILITIES</b>			
Capital funds G.O.K	7	1,976,370,474	1,014,312,190 *
Revenue Reserves	8	<u>238,485,009</u>	<u>291,772,925</u> *
<b>Accumulated Funds</b>		<b><u>2,214,855,483</u></b>	<b><u>1,306,085,115</u></b>
<b>CURRENT LIABILITIES</b>			
Accounts payable	9	438,761,221	159,724,900 *
Unused Project Funds	10	16,793,764	30,931,023
Provisions	11	1,230,000	730,000
Total		<u>456,784,985</u>	<u>191,385,923</u>
<b>TOTAL ACCUMULATED FUNDS &amp; LIABILITIES</b>		<b><u>2,671,640,468</u></b>	<b><u>1,497,471,038</u></b>

Signature   
 Ag. Chairperson: Prof. T.D.K Serem

Date: 18<sup>th</sup> March, 2015.

Signature   
 Director: Dr. M. G. Z. Moturi

Date: 18<sup>th</sup> March 2015



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**STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30TH JUNE 2014**

	<b>Capital Funds Ksh</b>	<b>Revenue Reserve Ksh</b>	<b>Total Ksh</b>
As at 30th June 2012	865,810,376	53,993,390	919,803,766
G.O.K Grants net increase	421,675,856		421,675,856
Decrease due to assets impairment	(14,691,740)		(14,691,740)
W.I.P expenditure adjustment		13,221,143	13,221,143
Surplus/(Deficit) for the year		(33,923,910)	(33,923,910)
Transfer of accumulated depreciation	<u>(258,482,302)</u>	<u>258,482,302</u>	<u>0</u>
As at 30th June 2013	<u>1,014,312,190</u>	<u>291,772,925</u>	<u>1,306,085,115</u>
G.O.K Grants net increase	1,010,039,624		1,010,039,624
Surplus/(Deficit) for the year		(101,269,256)	(101,269,256)
Transfer of depreciation	<u>(47,981,340)</u>	<u>47,981,340</u>	<u>0</u>
As at 30th June 2014	<u>1,976,370,474</u>	<u>238,485,009</u>	<u>2,214,855,483</u>



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**STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30TH JUNE 2014**

	Note	2013/2014 KSHS.	2012/2013 KSHS.
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			<b>Restated</b>
Operating surplus/(deficit)		(101,269,256)	(33,923,910) *
Adjustment for items not involving movements of cash:			
Depreciation expenses	2	<u>47,981,340</u>	<u>48,275,841</u>
<b>Surplus/Deficits before working capital changes</b>		<b><u>(53,287,916)</u></b>	<b><u>14,351,931</u></b>
<b>WORKING CAPITAL CHANGES</b>			
Decrease in inventories		3,958,312	8,305,667
Increase in accounts receivable		(108,109,475)	(69,638,342) *
Charge for provisions		500,000	-
Creditors and Accruals		279,036,321	129,317,379
Changes in Working capital		<u>175,385,158</u>	<u>67,984,704</u>
<b>Net cashflow generated from Operating Activities</b>		<b><u>122,097,242</u></b>	<b><u>82,336,635</u></b>
<b>Cash Flow in Investing Activities:</b>			
Purchase of Property and Equipment		(1,139,611,794)	(545,410,628)
<b>Cashflow from financing:</b>			
Capital grants		1,010,039,624	421,675,856
Changes from Donor project funding		<u>(14,137,259)</u>	<u>(7,981,020)</u>
<b>Net cash generated from financing activities</b>		<b><u>995,902,365</u></b>	<b><u>413,694,836</u></b>
<b>Net Decrease in cash and cash equivalents</b>		<b><u>(21,612,187)</u></b>	<b><u>(49,379,157)</u></b> *
Cash at the beginning of the year		31,634,362	81,013,519
Cash at the end of the year	5	10,022,175	31,634,362 *



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## Notes to the Accounts

### 1. Principal accounting policies

#### **Basis of Preparation**

(a) The financial Statements have been prepared in accordance with International Public Sector Reporting standards (IPSAS-first year adoption) 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 profit. On disposal of revalued assets, the revaluation surplus relating to that asset are transferred to retained earnings.

#### **(d) Depreciation**

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

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

**(i) Government grants**

Recurrent and Development grants have been accounted for in the Statement of Financial Performance in the year received. Capital grants are



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accounted for over the periods necessary to match them with the related costs which they are intended to compensate on a systematic basis.

**(j) Accounts receivable**

Accounts receivable are stated at anticipated realizable value.

**(k) Accounts payable**

Accounts payable are stated at nominal value.

**(l) Budget information**

The annual budget is prepared on accrual basis, that is all planned costs and income are presented in a single statement to determine the needs of the Institute.

**(m) Cash and cash equivalents**

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



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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014**

**Note 2**

**PROPERTY, PLANT AND EQUIPMENT**

	LAND	WORK IN PROGRESS	BUILDINGS	MACHINERY & EQUIPMENT	MOTOR VEHICLES	FURNITURE & FITTINGS	COMPUTERS & EQUIPMENT	TOTAL
	SHS	SHS	SHS	SHS	SHS	SHS	SHS	SHS
VALUE/COST as at 1/7/2013	26,865,000	802,851,599	317,535,400	197,027,143	76,180,232	28,696,635	44,859,368	1,494,015,377
Additions during the year	-	1,135,093,958	-	4,003,169	-	-	514,667	1,139,611,794
<b>TOTAL</b> 30th June 2014	<b>26,865,000</b>	<b>1,937,945,557</b>	<b>317,535,400</b>	<b>201,030,312</b>	<b>76,180,232</b>	<b>28,696,635</b>	<b>45,374,035</b>	<b>2,633,627,171</b>
Depreciation for previous year	-	-	6,350,708	15,946,305	16,851,589	1,893,414	7,233,825	48,275,841
Accumulated Depreciation b/f	-	-	45,822,348	114,014,817	44,377,085	22,372,693	31,895,359	258,482,302
Depreciation for this year	-	-	6,350,708	16,650,942	16,851,589	1,501,256	6,626,845	47,981,340
<b>Total Dep.</b>	<b>-</b>	<b>-</b>	<b>52,173,056</b>	<b>130,665,759</b>	<b>61,228,674</b>	<b>23,873,949</b>	<b>38,522,204</b>	<b>306,463,642</b>
<b>Net Book Value</b> <b>30:06:2014</b>	<b>26,865,000</b>	<b>1,937,945,557</b>	<b>265,362,344</b>	<b>70,364,553</b>	<b>14,951,558</b>	<b>4,822,686</b>	<b>6,851,831</b>	<b>2,327,163,529</b>
<b>Net Book Value</b> <b>30:06:2013</b>	<b>26,865,000</b>	<b>802,851,599</b>	<b>271,713,052</b>	<b>83,012,326</b>	<b>31,803,147</b>	<b>6,323,942</b>	<b>12,964,009</b>	<b>1,235,533,075</b>

The capital work in progress relates mainly to ongoing construction projects in Nairobi and Kisumu stations.



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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014**

**Note 3 R & D Projects**

These is composed of expenditure amounting Kshs.132,395,771 transferred from Development vote to R & D on recognition that R & D projects will generate future economic benefits. The Institute intends to patent its research discoveries which include prototype development, designs and pilot plants.

	2013/2014 KSHS.	2012/2013 KSHS. Restated
<b>Note 4</b>		
<b>Accounts Receivable</b>		
M.O.I & ent dev- Development Grants	178,255,000	70,000,000
National Industrial Training Authority	2,460,000	2,460,000
Traveling imprest(local)	173,321	260,205
Traveling imprest(overseas)	170,240	0
Temporary imprest	706,406	613,500
Standing imprest	1,101,452	601,340
Salary advance	615,593	700,316
Excess medical	339,320	1,076,496 *
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
<b>TOTAL</b>	<b><u>184,719,189</u></b>	<b><u>76,609,714</u></b>

**Note 5**

<b>Cash and Bank balance</b>		
HQ(main Account)	689,875	5,029,049 *
LDC A/c	1,574,057	323,889
EDSC A/c	1,037,405	427,510
Danida BSPS cashbook	1,853,856	6,842,033 *
Kisumu imprest A/c	71,774	1,035,977
LSC A/c	620,016	1,011,679
BBK A/c	419,496	13,535,854 *
NIIC/Projects Account	3,755,696	3,428,371
<b>TOTAL</b>	<b><u>10,022,175</u></b>	<b><u>31,634,362</u></b>



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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH  
JUNE 2014**

**Note 6 Stores and Inventories**

	2013/2014 (Kshs.)	2012/2013 (Kshs.)
General Stores	3,505,521	3,313,549
Loose tools	<u>13,834,283</u>	<u>17,984,567</u>
Total	<u>17,339,804</u>	<u>21,298,116</u>

	General stores	Loose-tools
Stock Adjustment		
Opening stock.....	3,313,549	17,984,567
Net increase/ (decrease) .....	<u>191,972</u>	<u>(4,150,284)</u>
Closing stock	<u>3,505,521</u>	<u>13,834,283</u>

**Note 7 Capital funds G.O.K**

The Ksh 1,976,330,474 stated as Capital funds is the net capitalization of Development releases going way back to 1980 when the Institute began Self-Accounting.

**Note 8 Revenue Reserves**

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



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	2013/2014 KSH	2012/2013 KSH Restated
<b>Note 9</b>		
<b>Accounts Payable</b>		
Payroll deductions	3,308,540	2,525,692 *
Retention money	151,548,354	56,601,515
Other Creditors	283,904,327	99,856,035
Miscellaneous deposits	-	741,658
<b>TOTAL</b>	<b><u>438,761,221</u></b>	<b><u>159,724,900</u></b>
<b>Note 10</b>		
<b>Project funds</b>		
WIFIP hyacinth project	546,500	546,500
ATPS-ICT project	158,891	158,891
Horticultural ADB	55,803	55,803
GTZ-Mini-hydro project	84,813	84,813
DANIDA-Fish leather/Arc welding	7,628,315	7,628,315
KAPP/ ILRI-Mushroom project	3,062,175	3,062,175
DANIDA-MOI	5,167,357	19,304,616
Lake and sea resources	89,910	89,910
<b>TOTAL</b>	<b><u>16,793,764</u></b>	<b><u>30,931,023</u></b>
<b>Note 11</b>		
<b>Provisions</b>		
Provision for Audit fee	1,230,000	730,000

**Note 12 Recurrent grants**

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

**Note 13 Development grants**

These represents grants received from the exchequer to finance acquisition of assets and expenses related to Institute's mandate to undertake research, technology and innovation activities. The total amount allocated for the year was Ksh 1,094,725 out of which Ksh 84,685,376 has been attributed to the statement of financial performance. This relates to R & D expenses incurred under development vote that are non-capital in nature.



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Note 14	2013/2014	2012/2013
<b>Rendering services</b>	<b>KSHS.</b>	<b>KSHS</b>
Service fees	29,883,508	33,935,410
<b>Note 15</b>		
<b>Other Income</b>		
Increase in stock-General stores (Note 6)	<u>191,972</u>	-
<b>TOTAL</b>	<u><b>191,972</b></u>	-
<b>Note 16. Staff Costs</b>		
Basic salary	251,753,166	228,593,225 *
House allowance	90,724,677	78,622,759
Other personal allowance	39,648,350	32,688,729
Medical Allowance	13,107,702	12,009,592
Medical Expenses	22,610,228	19,482,663 *
Passage and Leave	5,759,000	4,765,088
Training expenses	10,081,225	15,394,583
Group life, GPA	5,083,925	3,692,019
Fees commission and Honoraria	2,350,141	8,343,832
Gratuity, Pension and NSSF	<u>51,968,254</u>	<u>42,499,190</u>
<b>TOTAL</b>	<u><b>493,086,568</b></u>	<u><b>446,091,677</b></u>



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**Note 17 Board expenses**

Expenses of conferences and Board amounting Ksh.19,084,743 includes the Director's remuneration of Ksh.6,477,600, Board sitting allowances Ksh.8,111,704 and other expenses totalling Ksh 4,495,439.

In the previous year the expenditure was Kshs.24,834,660 comprising Directors' remuneration Ksh.5,895,600, sitting allowances Kshs.9,469,530, seminars & conferences Kshs.3,156,510 and hospitality Kshs.6,313,020

	2013/2014	2012/2013
<b>Note 18 Administrative Costs</b>	<b>KSHS.</b>	<b>KSHS</b>
Transport operation expenses	4,717,457	4,271,919
Postal and telecom expenses	10,098,922	2,409,601
Telephone expenses	712,842	1,077,282
Official entertainment	13,593,720	12,587,078
Electricity	6,985,741	6,887,059
Gas purchase	3,497,803	2,207,476
Water and conservancy	1,143,865	1,627,604
Publishing and printing	5,823,428	8,694,386
Purchase of consumables	7,565,468	6,654,272
Uniform and clothing	1,105,865	47,265
Library expenses	3,650,325	2,229,046
Purchase of stationery	9,544,976	10,480,629
Advertising and publicity	8,428,013	6,560,647
Show expenses and market research	6,908,952	6,131,349
Rent and rate(non-residential)	3,518,237	2,119,584
Computer expenses	10,700,669	7,445,317
Misc. and other charges	1,782,617	3,532,451
Contribution to other bodies	1,321,367	1,105,121
Contracted guards & cleaning services	8,640,212	10,061,279
Provision for audit fee	500,000	500,000
Laboratory chemicals	7,362,568	8,448,169
Contracted professional services	5,113,886	6,544,381
Rental of gas cylinders	10,000	5,220



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Refined fuels & lubricants-production	420,280	895,695
Maint. of office, furniture & equip.	7,049,525	6,072,622
Maint. of build. & stations-non res.	2,762,343	3,605,994
Maint. of plant machinery & equip.	6,813,799	5,050,733
Maint. exp-motor vehicles	3,760,508	3,390,614
<b>TOTAL</b>	<b>143,533,388</b>	<b>129,610,667</b>

**Note 19**

**Insurance Expenses**

Insurance of properties	3,549,133	3,842,375
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**Note 20 R & D Expenses**

Research feasibility studies & projects	40,091,261	128,523,572 *
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The expenditure on R& D projects amounting Ksh 40,091,261 includes travel expenses related to feasibility studies, project preparation and designs.

	2013/2014 KSHS.	2012/2013 KSHS
<b>Note 21</b>		
<b>Traveling and subsistence</b>		

Traveling and accommodation	45,853,295	44,299,005
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**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 closing of the financial year grants amounting Ksh 178,255,000 was awaiting the release by the Ministry of Industrialization and Enterprise Dev. recorded as receivables under Note 4.

**Note 24 Contingent liabilities and subsequent events**

At the year end there were no contingent liabilities foreseeable.

The outstanding Grants of Ksh 178,255,000 from the Ministry were received in July after closure of the financial year. The amount received however was in excess by Ksh.20,000,000 that was erroneously released by the Ministry. The excess amount was refunded in September.



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## **Note 25 Financial risk management**

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

## **Note 26 Restatements**

Prior year comparatives restated are attributed the following variations:

- 1) Technical and maintenance expenses have been reclassified to administrative expense (note 18) to conform to changes in presentation. The technical expenses comprise laboratory chemicals, Contracted professional services, Rental of gas cylinders, Refined fuel and lubricants. Maintenance expenses comprise maintenance of furniture, buildings and stations, plant and machinery and motor vehicles.
- 2) Excess medical expenses amounting Kshs 3,200,000 that formed part of Accounts receivables was written off and has been charged under staff medical expense (note 3).
- 3) Accumulated depreciation of Ksh 258,482,302 written down on Property Plant and Equipment (note 2) and charged to revenue reserves has been appropriated to capital reserves.
- 4) Donation related to inventory grant of loose-tools amounting Ksh 83,515,167 that was received from UNIDO was reclassified to revenue reserves.
- 5) Excess medical insurance balance totaling Ksh 890,991 previously recorded as receivables was credited by Ksh 384,180 recovery of payroll deductions (note 9) and Ksh 506,811 being charged to medical expenses (note 16).
- 6) Cash and cash equivalents was increased by Ksh 6,708,188 following the reversal of unpaid cheques in various accounts thus, Ksh 3,826,894 HQ-Main Account, Ksh 1,993,712 Danida A/c and Ksh 887,582 BBK A/c relative to the reduction of Staff cost by Ksh 241,203 and administrative expenses by Ksh 1,032,126 and research feasibility studies and projects by Ksh 5,434,859.

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS - RECURRENT BUDGET**

ITEM	VOTE HEAD	Original budget	Actual expenditure	Variance
3540400	<b>Appropriation in Aid</b>			
	Receipts from the Sale of Non- Produced Asset Collected as AIA	20,000,000	30,075,480	(10,075,480)
1330300	Recurrent grants	571,300,000	581,300,000	(10,000,000)
	<b>Total income</b>	<b>591,300,000</b>	<b>611,375,480</b>	<b>(20,075,480)</b>
	<b>VOTE HEAD</b>	<b>Original budget</b>	<b>Actual expenditure</b>	<b>Variance</b>
		<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
2110100	Basic Salaries - Permanent Employees	250,398,820	248,963,050	1,435,770
2110200	Basic Wages - Temporary Employees	2,000,000	6,510,116	(4,510,116)
2110300	Personal Allowance Paid as Part of Salary	141,258,000	141,521,773	(263,773)
2110400	Personal Allowance Paid as Reimbursements	13,300,000	11,670,097	1,629,903
2120100	Employer Contributions to Compulsory National Social Security Schemes	53,100,000	53,123,854	(23,854)
	<b>Sub-total</b>	<b>460,056,820</b>	<b>461,788,890</b>	<b>(1,732,070)</b>
2210100	Utilities and Supplies and Services	6,700,000	11,627,409	(4,927,409)
2210200	Communication Supplies and Services	6,760,000	10,811,764	(4,051,764)
2210300	Domestic Travel and Subsistence and Other Transport costs	8,108,180	6,142,461	1,965,719
2210400	Foreign Travel and Subsistence and Other Transport Costs	4,200,000	4,647,534	(447,534)
2210500	Printing, Advertising and Information Supplies and Services	11,660,000	11,791,598	(131,598)
2210600	Rental of Produced Assets	1,055,000	3,528,237	(2,473,237)
2210700	Training Expenses (including capacity building)	3,600,000	3,099,315	500,685
2210800	Hospitality Supplies and Services	19,500,000	26,200,863	(6,700,863)
2210900	Insurance Costs	31,240,000	31,243,286	(3,286)
2211000	Specialized Materials and Supplies	2,500,000	2,495,540	4,460
2211100	Office and General Supplies and Services	9,100,000	11,260,123	(2,160,123)
2211200	Fuel Oil and Lubricants	4,500,000	5,137,737	(637,737)
2211300	Other Operating Expenses	15,820,000	16,858,082	(1,038,082)
2220100	Routine Maintenance - Vehicles and Other Transport Equip.	3,500,000	3,760,508	(260,508)
2220200	Routine Maintenance - Other Assets	3,000,000	2,762,343	237,657
3111400	Research, Feasibility Studies, Preparation ,design & Supervision	-	-	-
	<b>Sub-total</b>	<b>131,243,180</b>	<b>151,366,800</b>	<b>(20,123,620)</b>
	<b>Grand total</b>	<b>591,300,000</b>	<b>613,155,690</b>	<b>(21,855,690)</b>

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS - DEVELOPMENT BUDGET**

ITEM	VOTE HEAD	Original budget	Actual expenditure	Variance
1330304	Development grants	1,240,000,000	1,094,725,000	145,275,000
2211000	Purchase of Specialized Materials and Supplies	10,000,000	8,468,433.0	1,531,567
3110200	Construction of Buildings	1,050,000,000	1,028,630,149	21,369,851
3110300	Refurbishing of Buildings	5,000,000		5,000,000
3110500	Construction of Civil Works	15,000,000	11,516,970	3,483,030
3110701	Purchase of Motor Vehicle Purchase	5,000,000		5,000,000
3111000	Purchase of Furniture & General Equipment	15,000,000	14,055,450	944,550
3111100	Purchase of specialized equipment plant and machinery	55,000,000	4,517,836	50,482,164
3111200	Rehabilitation and Renovation of plant Equipment/machinery	5,000,000	13,863,324	(8,863,324)
3111400	Research, Feasibility Studies, Preparation ,design & Supervision	80,000,000	95,155,591	(15,155,591)
	<b>Total</b>	<b>1,240,000,000</b>	<b>1,176,207,753</b>	<b>63,792,247</b>

**STATEMENT OF RECONCILIATION BETWEEN THE COMPARISON OF BUDGETED AND ACTUAL AMOUNTS AND STATEMENT OF FINANCIAL PERFORMANCE AS AT 30TH JUNE 2014**

<b>RECURRENT BUDGET</b>		
<b>PARTICULARS</b>	<b>AMOUNT</b>	<b>AMOUNT</b>
Deficit as per Statement of Comparisons on budgeted and actual amounts		(1,780,210)
Less Non Cash expenditure included in the SFP not in the SCBA		
Depreciation expense	(47,981,340)	
Provision for audit fees	(500,000)	
Decrease in stock-Amortisation	(4,150,284)	(52,631,624)
Less recurrent expenses charged to developed		(131,542,798)
Add revenue from development grants		84,685,376
Deficit as per Statement of financial performance		(101,269,256)

**STATEMENT OF RECONCILIATION BETWEEN THE COMPARISON OF BUDGETED AND ACTUAL  
AMOUNTS AND STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2014**

<u>PARTICULARS</u>	<u>AMOUNT</u>	<u>AMOUNT</u>
<b>DEVELOPMENT BUDGET</b>		
Total expenditure as per Development budget		1,176,207,753
Less recurrent expenditure charged to development budget (Note 27)		<u>131,542,798</u>
Net increase in assets financed from Development budget		1,044,664,955
Add Net increase in assets financed by creditors -retention (Note 9)		94,946,839
Increase in net assets as per statement of financial position (Note2)		1,139,611,794

**WORKING :NOTE 27**

**RECURRENT EXPENSES CHARGED TO DEVELOPMENT VOTE LINES**

<u>PARTICULARS</u>	<u>VOTE</u>	<u>AMOUNT</u>
Domestic travel	Research feasibility studies and projects	35,063,300
Printing and advertising	Research feasibility studies and projects	13,019,120
Training expenses	Research feasibility studies and projects	6,981,910
Office expenses	Furniture and general equipment	14,055,450
Research feasibility studies and projects	Research feasibility studies and projects	40,091,261
Maintenance expenses	Rehabilitation of equipment	13,863,324
Purchase of specialized equipment	Specialized material	8,468,433
		<b>131,542,798</b>

NOTES: The variances reflected between the budget and actual expenditure is attributed to the following:

#### **Over Expensed Votes**

- Acquisition of TPCSI as an additional centre from the Ministry upon which the Institute took over its management and operations. The take-over of its management and operation resulted in increase in staff costs, utilities costs and running overheads for the centre.

#### **Under Expensed Votes**

- The under expensed allocations which recorded positive variances was due to delay in disbursement of funds by Treasury resulting in underutilization of the allocation. The Treasury also had issued Circular No.17/2013 dated December 17<sup>th</sup> 2013 on the austerity measures to cut down expenditure and curtail procurement of certain items in order to make savings to cater for priority needs. Notably this had a direct impact in the institute's spending on some budget lines.

#### **Running of Centres**

- The expenditure on rents and rates went up significantly as a result of increases in the rates payable to the County Governments for the Institute's lands at Kisumu, Kibos Road and Nairobi's south B and C and other newly established centres at Kisii, Homabay, Eldoret, Mombasa and Garissa. The increase was also attributed to rental of industrial gas cylinders for research use of which the prices had gone up significantly.

#### **Delayed Disbursements and Budget Cuts**

- The institute was faced with a budget-cut of Kshs.145,275,000 under the development vote for the financial year under review.

The fourth quarter releases from the Treasury amounting Kshs.178,255,000 was also delayed and released in the month of July leading to instances where procurement process could not be commenced.