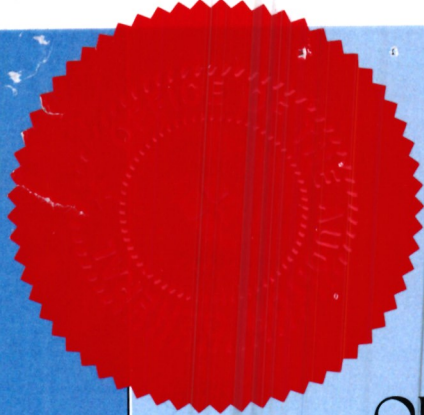


REPUBLIC OF KENYA



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REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KENYA LEATHER DEVELOPMENT
COUNCIL**

**FOR THE YEAR ENDED
30 JUNE 2017**



Kenya Leather Development Council (KLDC)

P.O Box 14480-00800

Nairobi, Kenya

Tel: +254-020-4442321

Email: ldckeny@gmail.com

Website: www.kenyaleatherdevelopment.go.ke



KENYA LEATHER DEVELOPMENT COUNCIL

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2017

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

KENYA LEATHER DEVELOPMENT COUNCIL
 ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

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II. KEY COUNCIL INFORMATION AND MANAGEMENT

a) Background information

The Kenya Leather Development Council (KLDC) was gazette as a State Corporation in the then Ministry of Livestock Development vide an Executive Order through a Legal Notice No. 114 of the Kenya Gazette supplement No. 113 of 9th September 2011, under the State Corporation Act (Cap 446) of the laws of Kenya. With the new dispensation, Kenya Leather was moved to the Ministry of Industry, Trade and Cooperative, where leather has been categorized as one of the priority sectors by the Ministry. The Council works closely with relevant Government institutions and other stakeholders in the leather industry.

b) Principal Activities

The principal activity/mission of the Council is to:

1. To promote, direct, coordinate, regulate, and harmonize all activities in the leather industry.
2. To oversee licensing in the leather industry.
3. To undertake research and development activities in the leather industry.
4. Advise the Minister and Government of Kenya on national strategies and policy with respect to the leather industry.
5. Enforcing compliance with set standards in collaboration with other relevant institutions in the industry.
6. Mobilize technical and financial support for the leather industry.
7. Collect, store, analyze, and disseminate data on leather.
8. Perform any other function, as the Minister may consider necessary.

c) Key Management

The Council's day-to-day Management was under the following key organs:

1. Chief Executive Officer
2. The Secretariat and;
3. Board of the Council.

d) Fiduciary Management

The key Management Personnel who held office during the financial year ended 30th June 2017 and who had direct fiduciary responsibility been:

Designation	Name
1. Chief Executive Officer	Dr. Issack M. Noor PhD.
2. Head Finance	CFA. Gladys Njeri Mwangi
3. Head Procurement	M/s. Clita Waswa

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ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

4. Head Monitoring and Evaluation George James Onyango

e) Fiduciary Oversight Arrangements

Finance and Governance Committee

The Finance Committee reviews budgets initially prepared by staff, to help develop appropriate procedures for budget preparations, and consistency between the budget and KLDC work plans. The Committee ensures regular, accurate monitoring, and accountability for funds and report to the Board on any financial irregularities. The members are listed below; -

1)	Mr.PSV Rao	Chairman
2)	M/s. Nancy Muya	Member, P.S Representative MoITC
3)	CPA Thomas Khakame	Member, alternate to P.S National Treasury
4)	M/s. Elizabeth Kamau	Member
5)	CPA Gladys Njeri Mwangi	Secretary

Audit Committee

The Audit Committee analyses and addresses the risks that are associated with the key processes of the Council. The Audit Committee reports to the Board of any financial irregularities. The Audit Committee liaises with auditors on any significant matters arising. Oversees the financial reporting and disclosures processes. The members are listed below; -

1)	Mr. Mark Stephenson	Chairman
2)	Mr. Robert Lemerkeo	Member
3)	Mr. Noor Barrow	Member
4)	CPA Thomas Khakame	Member, alternate to P.S National Treasury
5)	CPA Edwin Ombaka	Secretary

Human Resource and Administration Committee

The Committee discusses matters dealing with staff before presentation to Board for necessary approvals, coordination, and formal evaluation of Kenya Leather Development Council staff and report to the Board. Monitor and evaluate the Management industrial relations, employment law compliance, conduct and discipline, health and welfare and make recommendations to the Board. The members are listed below; -

1)	Mr. Noor Barrow	Chairman
2)	Mr. Simon Ng'ang'a	Member
3)	Mr. Kipsang Keter	Member
4)	Mr. Robert Lemerkeo	Member

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5)	M/s. Elizabeth Kamau	Member
6)	Mr. Patrick Nyadimo	Secretary

Technical and Strategy Committee

The Committee makes deliberations on technical matters on the Leather Sector and finally presents their recommendations to the Board of the Council. Review the Council performance contract, annual reports, work plan and performance contract documents. Review the Council's projects and policy recommendations for the leather sector. The members are listed below; -

1)	Mr. Kipsang Keter	Chairman
2)	Mr. PSV Rao	Member
3)	Mr. Simon Ng'ang'a	Member
4)	Mr. Mark Stephenson	Member
5)	M/s. Nancy Muya	Member, alternate to P.S State Department of Investment & Industry
6)	Mr. Charles Mwangi	Secretary

f) Entity Headquarters

Kenya Leather Development Council
P.O. Box 14480-00800
CPA Centre 5th Floor
Thika Road Super Highway
Nairobi Kenya

g) Entity Contacts

Telephone: (254) 0204442321
Cell phone: 0737711549/0704617705
Email: info@leatherCouncil.go.ke
ldckeny@gmail.com
<http://www.leatherCouncil.go.ke>

h) Council Bankers

Kenya Commercial Bank
Sarit Centre Branch, Westlands
P.O. Box 14959-00800
NAIROBI

i) Independent Auditors





Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084- 00100
NAIROBI/KENYA

KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

j) **Principal Legal Adviser**

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112-0020, City Square
NAIROBI/KENYA

III. BOARD OF THE COUNCIL



	NAME	DETAILS
1		<p>Mr. Titus Kirea Ibui was born on 29th July, 1952 in Meru County. In 1978 he graduated with BSc. Degree in Agriculture at the University of Nairobi and attained MSc. in Business Education in 1987. He has also worked with Shell International Chemical group marketing services as a manager. He is the Managing Director of Bell Industries Ltd. Other Organizations to which he is professionally affiliated includes (MBIM)-British Institute of Management (KIM)- Kenya Institute of management (MSK)-Marketing Society of Kenya</p>
2		<p>Mr. Simon Joshua Ng'ang'a Footwear Technologist by training born in 1947. He trained in institutions such as Bata Technical School (1962) and Cordwainers Technical College in London (1967). He has actively been involved in training on footwear manufacturing to students during his tenure at Bata Shoe Company. Later in (1978) after retiring from Bata shoe he joined Tiger Shoes as a production manager till 1984. He is sole proprietor of Simjon Shoes. He is a representative of KFMA and member of Board of Trustees TPCSI, Kenya Bureau of Standards and task force on revival of TPCSI.</p>
3		<p>CPA Thomas Khakame was born in 1958; he has 32 years' work experience as an Accountant. He holds a Degree in Finance, MBA- Strategic Management, MSC Finance, and currently a PhD candidate. He is alternate to Permanent Secretary, National Treasury.</p>
4		<p>Mr. Noor Barrow was born in 1953 and is the Director of Cross Bridge Investment Co. Ltd; he is also a consultant at Soluvent Management Consultants. He has a Master's Degree in Business Administration, majoring in Health Planning Management, Health Economics, Financial Management and Human Resource Management amongst other qualifications.</p>

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 ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

5		<p>M/s Elizabeth Kamau is a fashion and interior Designer with many years and wide experience in Kenya and East Africa. She is also a businesswoman.</p>
6		<p>Mr. Robert Lemerketo was born in 1972; he holds a Master's Degree in Business Administration from KEMU University as well as Bachelor of Commerce Degree from Jabalpur University-India. He also has a Master's Degree in Financial Services from Anamalai University-India. He has a proven ability to administer, control operations and vetting of investors. Other Capacities include handling public matters pertaining to leadership.</p>
7		<p>Mr. Pamidimukkala V. S. Rao was born in 1957 he holds a Bachelor's Degree in leather technology from Madras University and also a Master's Degree in leather technology from Anna University also Master's Degree in Business Administration from USIU-Nairobi. He has 32 years' experience in the tanning industry in Kenya</p>
8		<p>Mr. Mark Stephenson is the Director Sand storm Company Kenya, which started out making luxury safari tents in 2002. Today it makes East Africa's finest bags and accessories from canvas and leather.</p>
9		<p>Mr. Kipsang Keter was born in 1955 and holds a Bachelor of Science (Honors) Materials Technology (Leather) British School of Leather Technology University of Northampton-UK. He has 33 years' experience in leather related matters while in the civil service. He participated in the development of curriculum for leather technologists in the University of Nairobi-Kenya.</p>

KENYA LEATHER DEVELOPMENT COUNCIL

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017


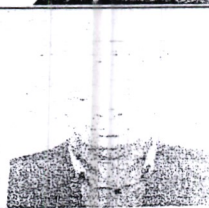


10		<p>M/s Nancy Muya was born in 1962 she holds a Bachelor Degree of Science (Mathematics and Chemistry) and pursuing a Master's of Science Degree in entrepreneurship. In July 2015 she was appointed as Acting Director of Manufacturing and Industrialization Policy. She is alternate to Permanent Secretary State Department of Investment and Industry.</p>
11		<p>Dr. Issack M. Noor is 57 years old, he holds a PhD in Live Stock Production Systems, Egerton University, (2013), MSc (Animal Production), University of Nairobi, (2009), BSc (Animal Health) Egerton University (1995) and Certificate (Animal Health) Ahiti- Nyahururu, (1990). He has over 35 years of public service experience with veterinary department, teaching, research, and administration. He is the Chief Executive Officer Kenya Leather Development Council.</p>

KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

IV. MANAGEMENT TEAM

	NAME	DETAILS
1		<p>Dr. Issack M. Noor is 57 years old, he holds a PhD in Live Stock Production Systems, Egerton University, (2013), MSc (Animal Production), University of Nairobi, (2009), BSc (Animal Health) Egerton University (1995) and a Certificate (Animal Health) Ahiti- Nyahururu, (1990). He has over 35 years of public service experience with veterinary department, teaching, research, and administration. He is the Chief Executive Officer Kenya Leather Development Council.</p>
2		<p>Charles M. Ndungu is the head Research, Standards, and Policy. Mr. Ndungu is 55 years old and holds a BSc Leather Technology degree (2004), Certificate in Hides and Skins Improvement (1981). He has attended courses in Cluster Management, Leather Finishing, and Business Incubation.</p>
3		<p>Mr. Joseph Chirchir is the head of Marketing and Resource mobilization. He is 57 yrs old and holds a certificate in leather technology (Hides and Skins Improvement Course). He also holds a diploma in Environmental Resource Management-Kenya polytechnic University College. He has 32 years' experience in leather related matters in the Civil service.</p>
4		<p>Mr. Onyango G.J is the Head of Monitoring and evaluation. He is aged 54 and holds a Diploma in Leather Technology. He has attended courses in Integrity Workshop, Strategic Planning Workshop, ISO Certification, Disability Mainstreaming, and Gender Mainstreaming. He was project co-coordinator for UNOPS.</p>
5		<p>Mr. Patrick Nyadimo is the Head of Human Resource he is 54 years old, he holds a BBA in Human Resource and also has a Diploma in Personnel Management. He has attended courses in Integrity Workshop, HIV/AIDS Sensitization and Voluntary Testing, ISO Certification, Disability Mainstreaming and Gender Mainstreaming.</p>

KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

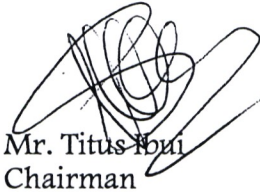
6		<p>Ms. Joyce Wachira is the Head of ICT and is 35 years old. She holds a Postgraduate Degree MSc Computer Science, BSc IT and Diploma IT. She has attended induction Course for IT, ESP Facilitation, ISO Management, Integrity Workshop, Planning, Developing Corporate Website and Database System Design and Management.</p>
7		<p>CPA Edwin Ombaka is the senior Internal Auditor aged 33 years. Holds MBA (Finance) from University of Nairobi, B.com (Accounts) from Kenyatta University, CPAK, Certified Information Systems Auditor (CISA) and well trained in oracle applications specifically the IIFMIS and has worked with five ministries and audited several Foreign Missions. He's a member of 3 bodies, ICPAK, Information Systems and Control Association (ISACA) and Institute of Internal Auditors (IIA).</p>
8		<p>CPA Gladys Njeri Mwangi is the Head of Accounts unit she is 50 yrs old and a member of Institute of Certified Public Accountants (ICPAK). She holds a Bachelor of Commerce (Finance Option). She attended short courses in Senior Management at Kenya School of Government, Preparation of Financial statements (ESAMI, Uganda), Financial Management and Good Governance (Denmark) Harmonized Cash Transfer (HACT), Integrated Financial Management Information System (IFMIS), Computer Proficiency, which includes computerized accounting packages. Above all she has a wealth of experience having worked for over 20 years in the civil service.</p>
9		<p>Ms. Clita Waswa is the officer in-charge of the Council's Procurement Section. She is 30 years old and holds a Diploma in Purchasing and Supplies Management from Mount Kenya University; in addition, she has passed proficiency examination for Clerical Officers-Supplies option.</p>

v. CHAIRMAN'S STATEMENT

Kenya Leather Development Council (KLDC) has undergone a tumultuous growth in the execution of its mandate in promoting a globally competitive leather industry in Kenya. Under the new dispensation, KLDC was moved from the then Ministry of Livestock Development (MoLD) to the Ministry of Industry, Trade and Cooperatives as a priority agency for the promotion of leather, footwear and leather products agenda in Kenya. This shift is of utmost significance as it demonstrates the immense focus of promotion of the Government towards promotion of the manufacturing economy as a critical sector in the creation of jobs and improvement of livelihood in Kenya. The leather sector presents opportunity for the creation of 35,000 jobs and subsequent increase in Kenya's Gross Domestic Product (GDP) by USD 150-250 Million all of which can be achieved through increased value addition efforts in the leather value chain.

The Government of Kenya through Kenya Leather Development Council is promoting a competitive and sustainable leather industry.

The Board and the management believes they will drive Kenya towards becoming a leather hub of Africa and will enable the country to achieve its goals of creating jobs, improving the national economy and addressing its balance of trade all towards a better quality of life for Kenyans.



Mr. Titus Ntui
Chairman

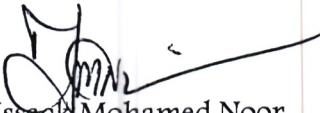
VI. REPORT OF THE CHIEF EXECUTIVE OFFICER

Kenya's leather sector is a major priority of the Government, as the Country seeks to attain the envisioned Vision 2030. Kenya Leather Development Council will establish a strong partnership with the Private Sector; Development Partners and Government institutions in order identify the key gaps and opportunities within the industry. Despite the potentials available in the leather industry, historical challenges have largely obscured the achievement of this sector, leading to the need for proactive and collaborative engagement between the Government of Kenya and leather value chain stakeholders on tailor-made initiatives aimed at transforming Kenya from a hides and skins producer to a global player in production of competitive leather, footwear and leather goods.

While the Management carries out the day-to-day activities of the Council, the Board of Council is responsible for policy direction and evaluation of the activities through the various Committees and Board approvals. The Board and the Management will strive to achieve the specific targets and overcome challenges thus ensuring the Council plays its rightful role both as a regulator and changing the economic and social dynamics in the leather industry. The Council appreciates the fact that, for the sector to grow and realize its full potential, this cannot be done by a single Agency and therefore appreciates the support given by the Parent Ministry, in collaboration with Government Departments and other Agencies.

The Organization like many other government agencies experienced reduction in development budget allocation. In the year under review only Ksh. 533,000,000.00 out of Ksh. 1,000,000,000.00 allocated to KLDC for development was received. Development allocation reduced by Ksh. 467,000,000.00 and Ksh.35, 600,000.00 for the recurrent allocation was disbursed in full.

The recurrent budget was insufficient and hence the Organization carried out activities that could be accommodated by the available resources while others were supported by development funds. Therefore, for the Council to execute its regulatory role for the industry and promote value addition the state through the National Assembly should consider increasing the recurrent budget allocation to enable the Council to address the technical gaps existing in its current staff structures.


Dr. Issack Mohamed Noor
Chief Executive Officer

VII. CORPORATE GOVERNANCE STATEMENT

During the period under review, the Board held 26 meetings with an attendance of 99%. The Cabinet Secretary appoints the Board members; their dates of appointment vary which means there is always continuity and institutional memory. The role and functions of the Board are clearly stated in the Mwongozo (The code of Governance for State Corporations) which states (among other roles and functions) that the Board should exercise their role collectively and not individually, set and oversee the overall strategy and approve significant policies of the organization, hire the CEO, on such terms and conditions of service as may be approved by the relevant government organ(s) and approve the appointment of Senior Management Staff.

In order to enhance Board Capacity, members have undergone an Induction as well as Audit Training. At the end of 2016/2017 the Board did an evaluation to assess members' performance.

VIII. MANAGEMENT DISCUSSION AND ANALYSIS

Entity's Compliance with Statutory Requirements

The Council fully complied and enforced statutory requirements during the contract period. This Includes;

- 1) Complied with public procurement regulations and rules
- 2) Prepared a procurement plan and submitted to PPOA by 31st August 2016.
- 3) Submitted quarterly procurement implementation reports to the Authority.
- 4) Ensured remittance of dues to PAYE, NSSF, and NHIF for employees of the Council.
- 5) The Council Submitted environmental sustainability audit report on compliance with EMCA-1999 by 30th September 2016.
- 6) Submitted annual work plan to the parent ministry.
- 7) Implemented Government policy on affirmative action for persons with Disability.

KLDC Board commits to implement internal control mechanisms in line with the Ethics and Anti-Corruption Commission Act No. 22 of 2011 and leadership and integrity Act of 2012

KEY PROJECTS AND INVESTMENT DECISIONS THE ENTITY IS PLANNING/ IMPLEMENTING

Kenya Leather Park

The Ministry of Industry, Trade and Cooperatives, through the Kenya Leather Development Council (KLDC), in partnership with the Export Processing Zones Authority (EPZA), is developing Kenya's first Leather Park (KLP) at Kinanie, Machakos County, to boost production. The KLP is set up on a 500-acre plot and will consist of various industries and services to promote the growth of the leather sector in the country.

The Government funds the Leather Park. Consequently, reduction of the budget allocated for the project has greatly affected long term planning. Work on the facility is ongoing.

Kariokor Common Manufacturing Facility

The Kariokor market which houses over 200 stalls and over 6000 MSMEs, has been in existence for decades as a hub of manufacturing activities with MSMEs specializing in production of a wide array of footwear and other items made from range of materials including leather. Kariokor shoe cluster is being upgraded by KLDC, construction of a go-down by Nairobi County Government with the aim of transforming the market into a competitive leather products manufacturing hub through the establishment of a Common Manufacturing Facility is ongoing. The upgrade will result in improving the production in terms of quality and quantity. The MSME cluster upgrading is 100% funded by the Government. The machines for the facility have been procured.

Upgrading of Training and Production Centre for Shoe Industry (TPCSI)

TPCSI is a training institute designed to support the development of the leather sector through skills development. To achieve the objectives, it should be well equipped in terms of human resource and machinery. The Council has procured modern leather manufacturing equipment and machinery to enhance capacity building and offer common manufacturing facilities to MSMEs. The outcome of this effort is to create employment and improve micro-economic stability for citizens. The upgrade is fully funded by the Government.

Switch Africa Green Project

This is a two-year project funded by the European Union directly (EU) through the United Nations Environment (UNE) and United Nations Office for Project Services (UNOPS). The aim of the project is to support six (6) African Countries to achieve sustainable development by engaging in transition towards an inclusive green economy, based on Sustainable Consumption and Production patterns while generating growth, creating decent jobs and reducing poverty. The project is implemented by KLDC in collaboration with COMESA/LLPI. In achieving these objectives, KLDC will focus on stakeholders networking among MSMEs through clustering and providing them with necessary skills.

Replication of Kariokor Common Manufacturing Model in the Counties

KLDC intends to replicate the Kariokor Common Manufacturing model to Nakuru, Malindi, Eldoret, Kisumu, Meru and Murang'a.

Major Risks/challenges Facing the Entity

KLDC may be insufficiently prepared to manage the major risks, which may face the organizations. Some of the major risks facing KLDC are;

- 1) Budget reduction during Supplementary budget process.
- 2) Insufficient funding.
- 3) Lack of sufficient human resource.

3) The existing regulatory framework (KLDC legal notice) lacks sufficient enforcement backing.

KLDC Management is doing everything possible to improve the Council's ability to deal with existing risks/challenges through appropriate risk management processes.

ix. CORPORATE SOCIAL RESPONSIBILITY (CSR) UNDERTAKEN BY KLDC

During the FY 2016/17, KLDC has been involved in the following Corporate Social Responsibility activities: -

i. Encouraging resource efficiency and waste management in production of leather articles from offcuts;-

KLDC has undertaken this through its engagement in the Switch Africa Green Project a two (2) year project aimed at promoting green practices across various sectors in Kenya. Specifically, through this Project, KLDC engaged 40 enterprises drawn from six (6) counties namely; Kisumu, Eldoret, Nyeri, Kiambu, Nakuru and Nairobi. The MSMEs were taken through intensive training on how they could utilize leather off cuts (previously discarded as waste) in production of quality leather artifacts for sale. As such, through the training MSMEs have been able to reclaim leather offcuts and use this material in production of items such as; key holders, sandals, dog collars, among others.

Consequently, the impact on the environment from waste leather offcuts has significantly reduced as MSMEs have reported recycling of over 1,000 Kilograms of leather offcuts thereby reducing negative impact on the environment.

ii. Relocation to spacious offices with adequate facilities for staff and stakeholders - KLDC relocated to a new spacious office situated at CPA Center, 5th Floor (Thika Road, Nairobi). The new office space is expansive creating sufficient room for operations by the Council's staff as well as providing adequate facilities for use by staff and stakeholders of KLDC.

Further, the KLDC Boardroom now provides a comfortable and adequate meeting space for the staff and stakeholders of the Council including; Kenya Tanners Association, Footwear and Leather goods Manufacturers. In doing this, the Council has responded to the needs of its staff thereby providing adequate space and facilities for the normal day today work. Also, KLDC has responded to the needs of its stakeholders by providing free space wherein they can hold meetings.

iii. Training of Artisans – In partnership with COMESA/Leather and Leather Products Institute through the Switch Africa Green Project, KLDC has trained 60 MSMEs on various business aspects aimed at improving the quality and competitiveness of their products. A total of six (6) trainings were conducted during the FY 2016/17 at no cost to the beneficiaries. The skills learnt have created immense impact on the businesses of beneficiary MSMEs resulting in better quality products and increased access to markets.

x. REPORT OF THE BOARD OF THE COUNCIL

The Board of the Council submits its annual report together with the unaudited financial statements for the year ended June 30, 2017, which shows the state of the Council's affairs.

Principal activities

While the management carries out the day-to-day activities of the Council, the Board of Council is responsible for the policy direction and evaluation of the activities through the various committees and Board approvals.

Results

The results of the Council for the year ended June 30, 2017 are set out on page 1 to 31

The Council

The Appointment of the Council is in accordance to Section 4 of The Kenya Leather Development Council Order, 2011.

Auditors

The Auditor General is responsible for the statutory audit of the Council in accordance with the Section 16(2) of the Kenya Leather Development Council Order, 2011.



Mr Julius Ibui
Board Chairman

Date:

XI. STATEMENT OF THE COUNCIL'S RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and Section 13, 14, 15, 16, 17 and 18 of The Kenya Leather Development Council Order, 2011, requires the Directors to prepare financial statements in respect of the Council, which gives a true and fair view of the of the Council at the end of the financial year/period and the operating results of the Council for that year/period. The Council is also required to ensure that it keeps proper accounting records, which disclose with reasonable accuracy its financial position. The Board of the Council is also responsible for safeguarding the assets of the Council.

The Directors responsibilities include: -


- (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 Council;
- (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 Council;
- (v) Selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors accepts responsibility for the Council'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 Accounting Standards (IPSAS), and in the manner required by the Public Finance Management (PFM) Act, 2012 and the State Corporations Act. The Council believes its financial statements give a true and fair view of the state of its transactions during the financial year ended June 30, 2017, and of the financial position as at that date. The Council further confirms the completeness of the accounting records maintained, which have been relied upon in the preparation of the financial statements as well as the adequacy of the systems of internal financial control.

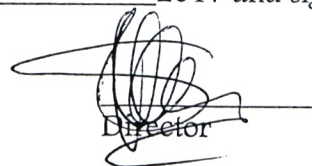
Nothing has come to the attention of the Council to indicate that the Council will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the Financial Statements

The entity's financial statements were approved by the Board on _____ 2017 and signed on its behalf by:


Director

Director


Director

REPUBLIC OF KENYA

Telephone: +254-20-342330
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 LEATHER DEVELOPMENT COUNCIL FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Leather Development Council set out on pages 1 to 28, which comprise the statement of financial position as at 30 June 2017, 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 Leather Development Council as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with Kenya Leather Development Council Order, 2011.

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

Basis for Qualified Opinion

1. Property, Plant and Equipment

As reported in the previous year, the property, plant and equipment balance of Kshs.184,502,012 as at 30 June 2017 excludes an undetermined value of land and other assorted equipment which the Council acquired from Kenya Industrial Research and Development Institute (KIRDI) at the time of handing over of Training and Development Centre for the Shoe Industry (TPCSI) in Thika. Some of these assets were bought at the inception of the Centre in 1994 and earlier years and are operational while others are dysfunctional and obsolete. The handing over report did not disclose the values of these equipment. In addition, the following were observed;

- i) The Centre was initially managed by a Board of Trustees who transferred it to the then Ministry of Industrialization in 2011. Subsequently, the Ministry handed over the management of the Centre to KIRDI who undertook management of the facility until

Report of the Auditor-General on the Financial Statements of Kenya Leather Development Council for the year ended 30 June 2017

18 November 2015 when it was handed over to the Kenya Leather Development Council (KLDC).

- ii) According to the handing over report, the Thika Centre sits on 0.1096 hectare (0.271 acre) of land, LR No. 4953/23/7 and registered in the land title registry as I.R 40506/4 as per Trustee Deed made on 25 February, 1994 and certificate of title issued on 25 April 1996. The whereabouts of the title could, however not be established and therefore ownership of the land could not be confirmed and, further, no valuation report for the parcel of land was availed for audit review.

2. Management of a Contract

As reported in 2015/2016, the Council entered into a contract with local company for the supply, delivery, installation and training of footwear and leather goods manufacturing equipment at a total cost of Kshs.83,038,539. Although the management has indicated that there was a concept paper as well as a Memorandum of Understanding (MOU) on that project, no evidence was availed for audit review on the number, nature of machines and location where they were to be installed. Further, a deposit equivalent to 20% (or Kshs.16,607,708) of the contract value was paid to the supplier in 2015/2016.

During the financial year under review, the Council paid a further Kshs.59,787,745 to the supplier before the equipment were installed, commissioned and training of users contrary to the terms in the signed contract. Information available indicates that the machines were eventually delivered and kept at the Council premises but have not been installed, tested and put to the intended purposes.

Consequently, the propriety and validity of the payment amounting to Kshs.76,395,453.00 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Leather Development Council 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 judgement, were of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, there were no Key Audit Matters to report in the year under review.

Other Matter

1. Staff Shortage

As was reported in the previous year, the Council has been relying on staff members deployed from the parent Ministry with the exception of the Chief Executive Officer.

Although the Board has put a strong justification to the parent Ministry to enable it employ its own staff, nothing appears to have been achieved during the year under review. Consequently, the Council does not have full control of staff members, a situation that has hampered the service delivery and execution of its mandate. It is however noted that the National Treasury has seconded an internal auditor as well as two accountants to enhance accountability in the Council's operations.

2. Memorandum of Understanding (MOU)

The Council entered into a Memorandum of Understanding (MOU) with the Export Processing Zones Authority (EPZA) on 8 December 2015 for the establishment of a leather industrial park in Machakos County. The MOU provided that the park was to be built on a portion of plot LR NO.23961 measuring 301.1 ha belonging to EPZA located at Kinanie. However, the actual acreage of the land to be alienated for the purpose was not indicated and the MOU did not outline the specific roles to be performed by each party and the agreed time frame. The manner in which the park was to be managed and the revenues that are expected to be generated therefrom and how those would be shared were not defined. In addition, it was not clear which of the two institutions was to incorporate in its books the operations and the ownership of the industrial park.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Council's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management intends to have the Council cease operations.

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

Those charged with governance are responsible for overseeing the Council's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 of Kenya. 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 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.

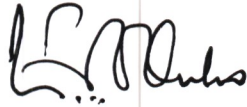
As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Council's 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 Council's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Council to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the 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

09 August 2018

KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017

		2016-2017	2015-2016(R)	2015-2016(A)
	Note	KShs	KShs	Ksh
Revenues from non-exchange transactions	4(b)			
Recurrent	2	35,600,000	15,785,000	15,785,000
Development		75,789,318	250,000,000	250,000,000
UNOPS		6,310,747	3,897,007	3,897,007
		117,700,065	269,682,007	269,682,007
Other income from exchange transactions	3			
TPCSI		1,041,027	439,506	439,506
Total revenue		118,741,092	270,121,513	270,121,513
Expenses				
Employee Costs	4	21,765,360	17,391,214	17,391,214
Remuneration of Directors	5	9,968,002	5,306,715	5,306,715
UNOPS		4,777,253	3,897,007	3,897,007
Depreciation of Plant, Property and Equipment	6	36,143,953	29,231,247	12,805,774
Contracted Services	7	21,238,914	-	-
General Expenses	8	30,662,948	23,633,090	23,633,090
Research		-	56,286	-
Audit Fees Provision		-	464,000	464,000
Total expenses		124,556,430	79,979,559	63,554,086
Deficit for the period		(5,815,338)	190,141,954	206,567,427

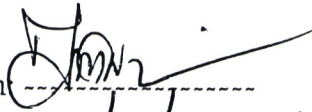
KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

XIII. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017


	Note	2016-2017	2015-2016
Assets		Kshs	Kshs
Current assets			
Cash and cash equivalents	9	85,923,167	186,306,342
Salary Advance		28,361	-
Inventories		2,371,937	435,747
Prepayments	10	388,147,892	1,889,668
Suspense		-	100,466
Total Current Assets		476,471,357	188,732,223
Non-Current Assets			
Property, Plant and Equipment	11	184,502,012	37,947,727
Intangible Assets	12	19,830,749	33,000
Total Non - Current Assets		204,332,761	37,980,727
Total assets		680,804,118	226,712,950
Liabilities			
Current Liabilities			
Trade and other payables from non-exchange transactions	13	20,805,947	6,265,600
Total Current Liabilities		20,805,947	6,265,600
Non- Current Liabilities			
Capital Fund		457,210,682	596,304
Retained Earnings		208,602,827	29,709,092
Accumulated Surplus/Deficit		(5,815,338)	190,141,954
Equity/Capital		-	-
Total Non-Current liabilities		659,998,171	220,447,350
Total net assets and liabilities		680,804,118	226,712,950

KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

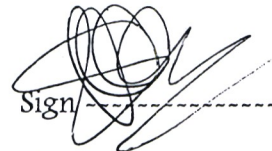
The Financial Statements set out on pages 1 to 28 be signed on behalf of the Board of Directors by:

Sign 
Date 31/9/2018

Dr. Issack M. Noor PhD.
Chief executive officer

Sign 
Date 31/9/2018

Gladys N. Mwangi
Head of Finance
ICPAK Member No: 11120

Sign 
Date-----

Titus K. Ibui
Chairman of the Board

KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

xiv. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2017
Reserves

	Retained Earnings	Capital Fund	Total
	Kshs	Kshs	Kshs
Balance as at 1 July 2015	29,709,092	596,304	30,305,396
Surplus/ for the period	190,141,954	-	190,141,954
Balance as at 30 JUNE 2016	219,851,046	596,304	220,447,350
Deficit for the period	(5,815,338)	-	(5,815,338)
Revaluation	(11,248,219)	(596,304)	(11,844,523)
Capital Fund (Net increase)	-	457,210,682	457,210,682
Balance as at 30 JUNE 2017	202,787,489	457,210,682	659,998,171

NB: Revaluation of retained earnings of Kshs. 29,709,092.00 and Capital Fund of Ksh. 596,304 was necessary due to overstated profits resulting from the inclusion of Economic Stimulus Programme funds which were not remitted to the Council's Bank Account held at KCB Sarit Centre but was accounted in the statement of comprehensive income during 2012/2013 FY. The ESP expenditure was committed and accounted for by the Parent Ministry of Livestock at that time.

KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

xv. STATEMENT OF CASH FLOWS AS AT 30 JUNE 2017

		2016-2017 KShs	2015-2016 KShs
Cash flows from operating activities			
Receipts			
Government grants	2	568,600,000	265,785,000
Other income:	3		
TFCSI (Training and Production Centre -Shoes Industry)		1,041,027	439,506
UNOPS Project		6,310,747	3,897,007
		575,951,774	270,121,513
Payments			
Employees Costs	4	21,765,359	17,391,214
UNOPS Project		4,777,253	3,897,007
Boards and Committee	5	9,968,002	5,306,715
Consultancy	7	21,238,914	-
General Expenses	8	30,662,948	23,058,808
Other payments	10	388,147,892	
Research		-	56,286
Inventories		(2,371,937)	(435,747)
Audit Fees Provision			464,000
Totals- Payments		474,188,431	49,738,283
Net cash flows from operating activities		101,763,343	220,383,230
Cash flows from investing activities			
Purchase of property, plant, equipment & intangible assets	11	(202,226,531)	(34,076,888)
Net cash flows used in investing activities		(202,226,531)	(34,076,888)
Net Increase/(Decrease) in Cash and Cash Equivalents		(100,463,188)	186,306,342
Cash and Cash Equivalent 1st July		186,306,342	
Cash and cash equivalents at end of the Year		85,843,154	186,306,342

XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS (SEE APPENDIX 1 ATTACHED)

XVII. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

KLDC is established by and derives its authority and accountability from State Corporations Act (CAP446, Legal Notice No.114 of 9th September 2011). The entity is wholly owned by the Government of Kenya and domiciled in Kenya. The entity's principal activity is advice the Minister and Government of Kenya on National strategies and policy with respect to the leather industry.

2. Statement of compliance and basis of preparation – IPSAS 1

The Council's financial statements have been prepared in accordance with and comply with International Public-Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Council. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared based on historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

3. Summary of significant accounting policies

a) REVENUE RECOGNITION

i) REVENUE FROM NON-EXCHANGE TRANSACTIONS – IPSAS 23

Government and Donor Funding

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

The Council received total revenues of Kshs. 568,600,000.00 out which Kshs. 533,000,000.00 was for development vote. Out of this development funds an amount of Kshs. 75,789,318 was apportioned to Financial Performance Statement to cater for operations. The balance of Kshs.457, 210,682.00 was transferred to Capital Fund as shown in the Statement of Changes in Net Assets.

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Council and can be measured reliably.

ii) Revenue From Exchange Transactions

The Council recognizes revenue from training services at Training and Production Centre for Shoes Industry.

b) Budget information – IPSAS 24

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Council. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or Council differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

c) Exemption from Corporation Tax – IAS 12

Current income tax

The Council is exempted from the payment of corporation tax as stipulated in paragraph 219(3) of the PFM act of 2015. However the Council complies with all other statutory obligations.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in

the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit.

Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable Council and the same taxation authority.

d) Operating lease - IPSAS 13:44

The Council has a six (6) years lease with CPA Centre whereby we are paying rent on quarterly basis. The rights of ownership have not been conveyed to the Kenya Leather Development Council.

e) Property, Plant and Equipment – IPSAS 17

All Property, Plant and Equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of Property, Plant and Equipment are required to be replaced at intervals, the Council recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the Plant and Equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value. The Council adopts a straight-line depreciation policy as follows;

Motor Vehicles	25%
Computers	30%
Furniture, Fittings and Equipment	12.5%
Plant and Machinery	33.3%

f) Leases – IPSAS 13

KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

Finance leases are leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Council. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Council also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Council will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Council. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

g) Financial Risk Management - IPSAS 30

The ultimate responsibility for liquidity risk management rests with the Board to the Council, who have built an appropriate liquidity risk management framework for the management of the entity's short and medium term liquidity management requirements. The Council manages liquidity risk through quarterly and annual monitoring of forecasts and actual cash flows. Insufficient budgetary allocations are a major risk as liabilities will not be settled as scheduled.

The summary below represents cash flows payable by the company

	30.6.17(Kshs)	30.6.2016(Kshs)
Trade payables	<u>20,805,947</u>	<u>6,265,600</u>

h) Intangible assets–IPSAS 31

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The useful life of the intangible assets is finite and intangible assets are depreciated at 25% per annum on straight-line basis. The intangible asset recognized in the Councils books relate to accounting software.

i) Research and Development costs

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

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

j) Financial instruments – IPSAS 29

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Council determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Council has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Council assesses at each reporting date whether there is objective evidence that a financial asset of the Council is impaired. A financial asset of the Council is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event

has an impact on the estimated future cash flows of the financial asset or the Council of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors of the Council are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Council determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortization -IPSAS 29.65

Amortized cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The intangible assets are amortized at 25% of the initial cost

k)Inventories – IPSAS 12

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Council.

D) Provisions – IPSAS 19

Provisions are recognized when the Council has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Council expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Council does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. In the year under review there were no contingent liabilities

Contingent assets

The Council does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Council in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

m) Nature and purpose of reserves

The Council creates and maintains reserves in terms of specific requirements.

n) Changes in accounting policies and estimates – IPSAS 3

The Council recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

o) Employee benefits – IPSAS 25

Retirement benefit plans

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

p) Foreign currency transactions – IPSAS 4

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise. Currently there are no foreign exchange transactions.

q) Cash and cash equivalents

Cash and cash equivalents basically comprises of cash in hand and cash at bank and may include any other item that may be readily converted to cash or represents cash. It is the policy of the Council to disclose the financial institutions where such amounts are held.

r) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

s) Significant judgments and sources of estimation uncertainty – IPSAS 1

The preparation of the Council's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts

of revenues, expenses, assets, and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Council based its assumptions and estimates on parameters available when the consolidated Financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond Control of the Council. Such changes are reflected in the assumptions when they occur (IPSAS 1.140)

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- a) The condition of the asset based on the assessment of experts employed by the Council
- b) The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- c) Availability of funding to replace the asset
- d) The nature of the processes in which the asset is deployed
- e) Changes in the market in relation to the asset

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Notes. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

t) Subsequent events – IPSAS 14

There have been no events subsequent to the financial year-end with a significant impact on the financial statements for the year ended June 30, 2017

u) Related party transactions –IPSAS 20

Parties are related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

NOTES TO THE FINANCIAL STATEMENTS

Name of the Entity sending the grant	Kshs	Kshs	Kshs	Kshs 2017	Kshs 2016
	Amount recognized to Statement of Comprehensive Income	Amount deferred	Amount recognized in capital fund.	Cumulative transfers to date	Actual Audited Prior Year
2) Transfers from Ministries, Departments and Agencies (Funding)					
Grants from Ministry of Industry, Trade & Cooperatives	111,389,318	-	457,209,181	568,600,000	265,785,000
Total	111,389,318	-	457,210,282	568,600,000	265,785,000
3) Other income					
TPCSI	1,041,027			1,041,027	439,506
UNOPS Project	6,310,747			6,310,747	3,897,007
Total other income	118,741,092			575,351,774	270,121,513
4) Employee costs					
Salaries	12,693,618				17,391,214
Casual Wages	4,707,821				
Income Tax - PAYE	3,755,778				
NSSF	391,753				
NHIF	216,390				
Employee costs	21,765,360				17,391,214
5) Remuneration of directors					
Chairman's Honoraria	960,000				480,000
Directors emoluments	7,998,303				4,826,715
Medical Insurance	1,009,699				
Total Director emoluments	9,968,002				5,306,715
6) Depreciation and amortization expense					
Property, Plant and Equipment	29,231,247				12,706,774
Intangible assets	6,643,250				99,000
Total					
Depreciation and amortization	35,874,499				12,805,774
7) Contracted services					
Contracted Guards	1,134,114				-
Consultancy Services	20,104,800				-
Total contracted services	21,238,914				-
8) General expenses					
Newspaper Subscription	94,660				-
Telephone Expenses	815,031				325,516
Foreign Travel	1,953,121				3,440,065
Cleaning & Compound Maintenance	-				411,692
Hire of Conference Facility	548,594				-
Catering Expenses	764,217				1,220,748
Training Expenses	2,297,362				622,950
Board Expenses	-				
Daily Subsistence Allowance	5,820,342				1,553,450
Internet Connection	185,600				174,000
Generator Expenses	-				17,280
Printing and Stationeries	-				973,463

KENYA LEATHER DEVELOPMENT COUNCIL
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General Office Supplies	5,092,993	82,058
Courier & Postal Charges	46,990	1,585
Office Rent	8,091,941	4,176,000
Motor Vehicle Insurance	752,256	361,983
Television Subscriptions	-	4,000
Refined Fuels Lubricants	813,466	1,488,000
Sundry Expenses	-	5,130
Subscription & Membership fees	55,866	-
Purchase of Uniforms	178,001	-
Bank Charges	61,018	34,255
Electricity	98,273	93,667
Water	284,635	146,480
Motor Vehicle Maintenance	631,927	1,026,720
Maintenance of Furniture & Equipment	229,600	4,510
Computer repairs & Accessories	-	335,135
Security Services	-	942,426
Publicity & Communication	-	2,596,500
Consultancy	-	2,167,577
Audit fee	464,000	464,000
Trade Show & Exhibition	1,383,055	963,900
Total general expenses	30,662,948	23,633,090
9) Cash and cash equivalents		
Current Account	85,843,154	186,306,342
Cash in Hand	80,013	-
Total cash and cash equivalents	85,923,167	186,306,342
10) Prepayments		
Kenya Leather Park Project (CEIP)	385,105,119	
Kenya Leather Park (Precast Wall)	439,792	
Refined fuels & Lubricants	297,605	
Internet Connection	240,000	
Medical Insurance	1,695,127	
Motor Vehicle Insurance	370,252	
Total	388,147,895	
Financial institution		
Kenya Commercial bank	85,923,167	186,306,342
Sub- total	85,923,167	186,306,342
11) Property, Plant and Equipment - See separate note		
12) INTANGIBLE ASSETS		
Cost		
At beginning of quarter	132,000	132,000
Additions	26,440,999	
At end of quarter	26,572,999	132,000
Amortization and impairment		
At beginning of quarter	99,000	99,000
Amortization (Software)	33,000	66,000
Amortization (Partitions)	6,610,250	-

KENYA LEATHER DEVELOPMENT COUNCIL
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Net Book Value	19,830,749	33,000
13) Trade and other payables from Non-exchange transactions		
Trade payables:		
Retention Monies	15,004,347	-
Kenya Leather Park (Internal Roads Network Payables)	5,801,600	5,801,600
Audit Fee		464,000
Total trade and other payables	20,805,947	6,265,600

KENYA LEATHER DEVELOPMENT COUNCIL
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	Motor vehicles	Furniture and fittings	Computers	Plant and Equipment	Work In Progress	Total
11) Property, Plant and Equipment						
Cost	Shs	Shs	Shs	Shs	Shs	Shs
B/F 1/7/2014	11,755,528	1,936,304	4,326,255	-	-	18,018,087
Additions	-	1,880,810	1,833,879	-	-	3,714,689
At 1 July 2015	11,755,528	3,817,114	6,160,134	-	-	21,732,776
Additions	4,985,360	-	1,811,880	-	16,471,676	23,268,916
At 30th June 2016	16,740,888	3,817,114	7,972,014	-	16,471,676	45,001,692
Additions	9,543,688	6,338,175	2,044,557	76,395,452	81,463,660	175,785,532
At end of year - June 2017	26,284,576	10,155,289	10,016,571	76,395,452	97,935,336	220,787,224
Depreciation and impairment						
B/F 1/7/2015	2,938,882	477,139	1,848,040	-	-	5,264,061
Additions	1,246,340	-	543,564	-	-	1,789,904
30/6/2016	4,185,222	477,139	2,391,604	-	-	7,053,965
B/F 1 July 2016	4,185,222	477,139	2,391,604	-	-	7,053,965
Depreciation for 2016	2,385,922	792,272	613,367	25,439,686	-	29,231,247
At 30 June 2017	6,571,144	1,269,411	3,004,971	25,439,686	-	36,285,212
Net book values						
At 30 June 2016	12,555,666	3,339,975	5,580,410	-	16,471,676	37,947,727
At 30 June 2017	19,713,432	8,885,878	7,011,600	50,955,766	97,935,336	184,502,012

NB: Furniture, fittings, and equipment were revalued. This because some equipment was listed in PPE while as they had been donated to the Counties under the Economic Stimulus Programme during 2012/13 F/Y.

KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

14) Related Party Transactions-see Note 5

Directors Remunerations	9,968,002	5,306,715
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15) Cash Generated From Operations

DESCRIPTION	2016-2017	2015-2016
	Kshs	Kshs
Surplus for the year	(5,815,338)	206,567,427
Add: Depreciation	36,143,953	12,805,774
Cash Flows From Operating Activities	30,328,615	219,373,201
Working Capital Adjustments		
Decrease (Increase) in prepayments	386,258,227	1,876,046
Increase (decrease) in Payables	14,540,347	(825,797)
Increase (decrease) in Inventories	1,936,190	(342,842)
Net Change in Working Capital	402,734,764	707,407
Net Cash Flows From Operating Activities	433,617,590	220,080,608

KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

XIV PROGRESS REPORT ON PRIOR YEAR AUDIT MATTERS (FINANCIAL YEAR 2016-2017)

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.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and Designation)	Status : (Resolved / Not Resolved)	Time Frame When The Issue is expected to be resolved	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)
Basis for qualified opinion	1. Property, Plant and Equipment The Property, Plant and Equipment balance of Kshs. 58,397,882 exclude undetermined value of land and other assorted equipment, which the Council acquired from KIRDI at the time of handing over TPCSI in THIKA.	1. Training and production centre for Shoe industry (TPCI) was initially managed by Board of trustees from various stakeholders in the Leather value chain. The ministry of industry trade and co-operatives took over the centre and subsequently handed over its management to KIRDI, which was by then the only agency in the ministry dealing with Leather matters. Upon transfer of the Kenya Leather Development Council (KLDC) to the main Ministry of industrialization and Enterprise Development, the daily running of TPCSI was delegated to the Council during the handing over ceremony of 18 th November 2015. The ministry is currently following up on the land ownership matters. The land on which the institution is situated is still registered under the				KLDC/ MoIT& C	Not resolved	

KENYA LEATHER DEVELOPMENT COUNCIL

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

Reference No. on the external audit report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and Designation)	Status: (Resolved/Not Resolved)	Time Frame When The Issue is expected to be resolved	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)
		Board of trustees and the ownership does not belong to KLDC. In such circumstances, the valuation could not be stated in our financial statements. The same applies to the machinery at the Institute some of which already obsolete.						
	2. Management of a contract: The Council entered into a contract with a local company for the supply, delivery and installation of footwear and leather goods manufacturing equipment as well as training technicians at a cost of Ksh. 83,038,539. The Council has not availed for audit the number, nature of machines and location where they were to be installed. Further, a deposit equivalent to 10% of the contract value was paid to the supplier before the delivery and acceptance of the machines contrary to section 146&147 of the Public	It is true that the Council entered into a contract with a local company for the supply, delivery, installation and training of footwear manufacturing equipment operators at a total cost of Kshs 83,038,539. The Number types and place where the machinery were to be installed was agreed between the Council and the beneficiaries' (i.e. Kariakor shoe makers) and experts at TPCSI and the county government of Nairobi. This was captured in minutes, which shall be provided in due course. The advance payment of Kshs 16,607,707.80 referred to was paid during the current financial year 2016/2017 and was made as per the contract agreement as provided in the public procurement and asset			1. The Council is still seeking for funds to enable it employ its own staff to enable it execute its mandate	KLDC	Not Resolved	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and Designation)	Status : (Resolved / Not Resolved)	Time Frame When The Issue is expected to be resolved	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)
	Procurement and Asset Disposal Act, 2015.	disposal act. The concept paper as well as the memorandum of understanding with Nairobi city County Government has since been reviewed and the land for construction of the common manufacturing facility identified. The County Government is in the process of awarding the tender for the construction works and the Bills of Quantities are already prepared.						
Basis for qualified opinion	3. Establishment of Leather Industrial Park The Council entered into a Memorandum of Understanding (MOU) with the Export Processing Zones Authority (EPZA) on 8 December 2015 for the establishment of a leather Industrial Park in Machakos County. The MOU provided that the park was to be built on a portion of land LR No.23961 MEASURING 301.1ha belonging to EPZA which is located at Kinanie. However, the actual acreage of the land to be alienated for the purpose was not indicated and the MOU did not outline the specific roles to be performed by	The Council has already appointed both the project Manager and the contract implementation team comprising officers from KLDC and EPZA- The joint implementation organization This is to ensure that there is value for money on Funds channel towards construction of the Kenya Leather park. The expenditure returns on monies for the project will be available for audit purposes this financial year(2016/2017				KLDC/ EPZA	Not Resolved	

KENYA LEATHER DEVELOPMENT COUNCIL
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Reference No. on external audit report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and Designation)	Status :(Resolved/Not Resolved	Time Frame When The Issue is expected to be resolved	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)
	each party and the agreed time frame. The manner in which the park was to be managed and the Revenues that are expected to be generated there from and how those would be shared were not defined. In addition, it was not clear which of the two institutions was to incorporate in its books the operations and ownership of the industrial park							
	<p>3.2. Works on the Devki-kenanie Road During the year under review, the Council transferred a total of ksh 5,801,600 to the Export Processing Zones Authority (EPZA) being part payment for works on Devki-Kinanie Road and the opening up of phase 1 of road works within the proposed Leather industrial Park at a cost of Ksh 11,603,200 and of which the expenditure was to be accounted for by EPZA. The figure of Ksh .11,603,000 was however not analysed but only cited in a letter from the EPZA to the Council as</p>	In the course of the Year, the Council did the transfers Kshs5,801,600.This was to cater for the clearing and opening up of the Internet roads in the park but not the Devki-Kinanie road as indicated. The mix up came about when EPZA wrote the funds request. This is confirmed as per the joint funding commitment proforma on the agreed activities attached.			1. The project is co-owned and there is need to review MoU.	KLDC/ EPZA	Not Resolved	

KENYA LEATHER DEVELOPMENT COUNCIL
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Reference No. on the external audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and Designation)	Status : (Resolved / Not Resolved)	Time Frame When The Issue is expected to be resolved	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)
	<p>invoiced by the County Government of Machakos and did not include the price of materials. There was no evidence to show the works were tendered for. The Council had made a 50% payment for the improvement of the 14KM Devki-Kinanie road yet there was no evidence that any works had been carried out at the time of Audit inspection. In view of the foregoing it was not possible to ascertain that the Council would get value for its money and it may have utilized funds for activities that were not budgeted for and outside its mandate.</p>							
Basis for qualified opinion	<p>4. Inaccuracies in the statement of cash flows The statement of cash flows for the year ended 30 June 2016 under cash flows from investing activities reflects a figure of Ksh 34,076,888 under purchase of Non-Current Assets. However, the fixed assets movement schedule disclosed at note 12 to the financial statements reflects</p>	<p>It is true that purchase of non-current assets in the statement of cash flow is overstated. The extra expenditure was traced to expenditures, which had previously been omitted from the general ledger. The necessary adjustments have been made where necessary and the cash flow statement revised.</p>						

KENYA LEATHER DEVELOPMENT COUNCIL
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Reference No. on the external audit report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and Designation)	Status : (Resolved / Not Resolved)	Time Frame When The Issue is expected to be resolved	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)
	an addition of assets amounting to ksh 30,252,981 resulting in unexplained variance of kshs3,823,907. In the circumstances, it is not possible to confirm the accuracy of the cash and cash equivalents balance of Kshs 156,306,342 as at 30 June 2016							
	<p>Other Matter</p> <p>1. Staff Shortage As was reported in the previous year, the Council has been relying on staff members deployed from the parent Ministry with the exception of the Chief Executive Officer. Although the Board has put a strong justification to the Parent Ministry to enable it employ its own staff, nothing appears to have been achieved during the year under review.</p> <p>2. Budgetary Control and irregular re-allocation of Capital Grants. The Council</p>	<p>It is true that the Council has been experiencing staff shortage as indicated. However, the Council appreciates the National Treasury for seconding one (1) senior Internal Auditor and two(2) accountants.</p> <p>During the financial year under review (2015/2016FY), the Council was allocated Kshs 516,400,000 in the approved budgetary estimates but only Kshs265,785,000 was credited in our account held at KCB Sarit Center. The amount received for Recurrent expenditure was Kshs 15,785,000. The funds received for Development expenditure Kshs 250,000,000 was for</p>						

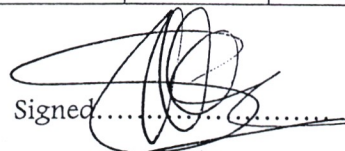
KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

Reference No. on the external audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and Designation)	Status: (Resolved/Not Resolved)	Time Frame When The Issue is expected to be resolved	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put date when you expect the issue to be resolved)
	<p>Received grants amounting to kshs. 265,785,000 being Recurrent grant of Ksh 15,785,000 and Capital grants of Ksh. 250,000,000 from the parent Ministry. Examination of cash books, bank accounts and payment records revealed that the Council comingled and utilized the development grants of ksh.250,000,000 with Recurrent operations without the requisite Board and national Treasury approval contrary to the provisions of the Public Finance Management Act 2012. The Council's budget and programs may therefore not have been implemented as appropriated.</p>	<p>purchase of machinery for Kariokor common manufacturing facility and the Kenya Leather Park as at the end of financial year our bank statements reflected a balance of Ksh200,871,699. This was to cater the purchase of Leather and Leather goods manufacturing equipment for Kariokor, Resource mapping and Development of Data Bank and also on-going civil works at the Kenya Lather Park (fencing) by the end of the financial year the Council had awarded contracts for all above works and services as per the approved Development fund budget.</p>						

Signed 

CEO/ Secretary KLDC

Date 31/7/2018

Signed 

Chairman, KLDC

Date.....

KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

PROJECTS DETAILS						
Project title	Number	Donor	Period / duration	Donor commitment	Separate donor reporting (yes/no)	Comments
Kenya Leather Park	1	GOK	4Yrs	None	No	Master plan survey and internal clearing complete. Fencing is 90% per cent complete. Upgrading of Internal roads is ongoing. Effluent treatment plan construction tender awarded and site handed over to the contractor.
Kariokor Leather Cluster	2	GOK		None	No	
STATUS OF PROJECTS COMPLETION						
	Project	Total project Cost	Total expended to date	Completion % todate	Budget	Actual per quarter
1	Upgrading Infrastructure-Kenya leather Park	4.409B		15%	874,400,000	218,600,000
2	Kariokor Leather Cluster			60%	24,500,000	6,125,000

KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

Appendix 1: Inter-Entity Transfers

DESCRIPTION		2016- 2017	2015-2016
2) Transfers from Parent Ministry	Amount Recognized to statement of comprehensive income	Total grant income during the year	Actual audited Prior Year
		Kshs	Kshs
Ministry of Industrialization	568,600,000	568,600,000	265,785,000
TOTAL	568,600,000	568,600,000	265,785,000