
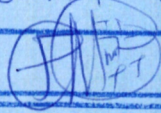


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 23 JUL 2019	DAY: TUESDAY
TABLED BY: MAJORITY WHIP	
CLERK-AT THE-TABLE:	

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA LEATHER DEVELOPMENT
COUNCIL

FOR THE YEAR ENDED
30 JUNE 2018

PARLIAMENT
OF KENYA
LIBRARY





Kenya Leather Development Council (KLDC)

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Nairobi, Kenya

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KENYA LEATHER DEVELOPMENT COUNCIL

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2018

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

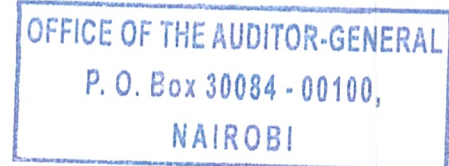


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KEY COUNCIL INFORMATION AND MANAGEMENT

a) Background information

The Kenya Leather Development Council (KLDC) was gazetted 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 2018 and who had direct fiduciary responsibility been:

Designation	Name
1. Chief Executive Officer	Dr. Issack M. Noor PhD.
2. Head Finance	CPA. Gladys Njeri Mwangi
3. Head Procurement	M/s. Clita Waswa
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. Raphael Letimalo	Chairman
2)	Mr. Simon Atebe	Member, P.S Representative MoITC
3)	Mr. Henry Mutwiri	Member, alternate to P.S National Treasury
4)	Ms. Anne Lengerded	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. Elias K. Busienei	Chairman
2)	Mr. Stephen Karume	Member
3)	Mr. Mark Stephenson	Member
4)	Mr. Henry Mutwiri	Member, alternate to P.S National Treasury
5)	Mr. 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. Elizabeth Kamau	Chairman
2)	Mr. Raphael Letimalo	Member
3)	Mr. Amina Wario	Member
4)	M/s. Anne Lengerded	Member
5)	Mr. Elias K. Busienei	Member
6)	Patrick Nyadimo	Secretary

KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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. Mark Stephenson	Chairman
2)	Mr. Stephen Karume	Member
3)	Ms. Elizabeth Kamau	Member
4)	Ms. Amina Wario	Member
5)	M/s. Simon Atebe	Member, alternate to P.S State Department of Investment & Industry
6)	Mr. Charles Ndungu	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
ldckkenya@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

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

j) Principal Legal Adviser




KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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




KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

BOARD OF THE COUNCIL





	NAME	DETAILS
1		<p>Mr. Abdi Bare Duale is the Chairman of the Kenya Leather Development Council .He is a businessman dealing in animal health products for over 2 years. He has served as a Board Member of Kenya Bureau of Standards (KEBS) and Kenya Revenue Authority (KRA).</p>
2		<p>Anne Rimbaine Lengereded was born in 1969; she is a MCIP (Member Chartered Institute of Purchasing & Supplies- Professional stage. She holds Masters on Public Policy & Analysis JKUAT and Bachelor of Commerce (Finance option) Kenyatta University; she was a Board Member at Pastoralist Development Network, Tele-post Sacco, and various learning institutions. She has a wide experience in Procurement matters.</p>
3		<p>Mr. Henry Mutwiri was born in 1971; he has 22 years' work experience in finance related office. He holds a Degree in BBA, MBA-Finance, Post-Graduate-Diploma in Financial Management and professional Diploma in Public Procurement. He is alternate Permanent Secretary, National Treasury.</p>

5		<p>Mr. Elias Kipkemei Busienie was born in 1973; he holds MBA (Executive)-aviation option Moi University, has wide experience in Flight Operations in Kenya.</p>
6		<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>
7		<p>Mr. Raphael Letimalo was born in 1957, he holds a Bachelor of Arts degree in Peace Study and Conflict Resolution 1st class honors. He was a Member of Parliament 2007-2017 and also District Officer 1988-2007.</p>
8		<p>Ms. Amina Mohamed Wario She has been a civic leader in Nairobi City Council for 3 terms.</p>

KENYA LEATHER DEVELOPMENT COUNCIL
 ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

9		<p>Mr. Simon Atebe He worked as Assistant Director Ministry of Industry Trade and Cooperatives from 2013 to 2018. In the year 2018 he became Deputy Director Ministry of Industry Trade and Cooperatives. He is currently the acting Director at Directorate of Agro-Industries</p>
10		<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>
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 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>

MANAGEMENT TEAM

	NAME	DETAILS
1		<p>Dr. Issack M. Noor is 58 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 56 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 58 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 55 years 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>

KENYA LEATHER DEVELOPMENT COUNCIL

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

5		<p>Mr. Patrick Nyadimo is the Head of Human Resource he is 55 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>
6		<p>Ms. Joyce Wachira is the Head of ICT and is 36 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 34 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 52 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 computerize accounting packages. Above all she has a wealth of experience having worked for over 20 years in the civil service.</p>

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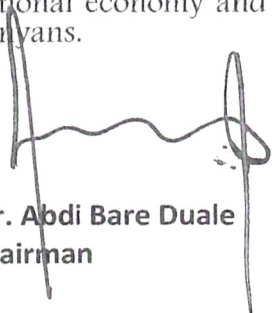
Ms. Clita Waswa is the officer in-charge of the Council's Procurement Section. She is 31 years old and holds a Diploma in Purchasing and Supplies Management from Mount Kenya University; in addition, she has passed proficiency examination for Clerical Officers-Supplies option.

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. Abdi Bare Duale
Chairman

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. 212,500,000.00** out of **Ksh. 800,000,000.00** allocated to KLDC for development was received. Development allocation reduced by **Ksh. 587,500,000.00**. The recurrent allocation for **ksh 67,892,000** had a reduction of **ksh 6,973,000.00**.

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

CORPORATE SOCIAL RESPONSIBILITY (CSR) UNDERTAKEN BY KLDC

During the FY 2017/18, 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. The training also covered efficient use of chemicals and water in the Tanning industry.

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. Training of Artisans – In partnership with ALLPI/Africa Leather and Leather Products Institute through the Switch Africa Green Project, KLDC has trained 59 MSMEs on various business aspects aimed at improving the quality and competitiveness of their products. The skills learnt have created immense impact on the businesses of beneficiary MSMEs resulting in better quality products and increased access to markets.

iii. 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, 2018, 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

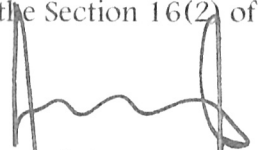
The results of the Council for the year ended June 30, 2018 are set out on page 1 to 25

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 Abdi Bare Duale
Board Chairman

Date: 18/12/2018

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: -

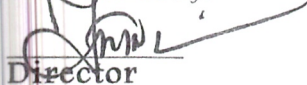
- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Council;
- (iii) Designing, implementing 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, 2018, 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 _____ 2018 and signed on its behalf by:



Director



Director

Director

REPORT OF THE INDEPENDENT AUDITOR ON THE KENYA LEATHER DEVELOPMENT COUNCIL

REPUBLIC OF KENYA

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA LEATHER DEVELOPMENT COUNCIL FOR THE YEAR ENDED 30 JUNE 2018

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 25, which comprise the statement of financial position as at 30 June 2018, and 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 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya Leather Development Council Order, 2011.

Basis for Qualified Opinion

1. Property, Plant and Equipment

1.1 Training and Production Centre for the Shoe Industry (TPCSI) in Thika

As previously reported, the property, plant and equipment balance of Kshs.256,748,032 as at 30 June 2018 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 Production 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

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

- ii) According to the handing over report, the TPCSI in Thika sits on 0.1096 hectare (0.271 acre) of land, LR No.4953/23/7 and registered in the land title registry as L.R. No.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 deed could however not be established and therefore the ownership of the land could not be confirmed. Further, no valuation report for the parcel of land was availed for audit review.

1.2 Construction of Modern Common Effluent Treatment Plant at Kenya Leather Park - Kenanie, Machakos Country

KLDC in joint venture with Export Processing Zone Authority (EPZA) each 50% entered into a contract with EPCO Builders Ltd on 17 February 2017 (Contract No. KPL/KLDC-EPZA/01/2016-2017) at a contract sum of Kshs.2,265,324,226 for the above mentioned project.

As a result, a feasibility study was done by MS Repcon Associates which was procured by EPZA and a feasibility report issued in April 2016. Our audit on procurement and management of this contract raised the following concern;

- (i) The contractor was to commence work within 28 days of awarding of the contract. During the last audit inspection at the site, a comparison of the work plan and the targets revealed that the work is far below the expectations. The value of work certified by the Engineers of the State Department for Public Works as at 20 February, 2018 was estimated at Kshs.123,746,991 being apportioned as Kshs.90,000,000 to KLDC and Kshs.33,746,991 to EPZA.
- (ii) The total budget for this project that was approved by the Board and the Ministry has not been availed for audit review which raises concern as to why the resources were committed before the budgetary approval was given.
- (iii) The management made an advance payment of Kshs.385,105,119 on 12 June 2017 followed by another one of Kshs.90,000,000 on 1 February 2018 for certificate No.2 dated 20 February 2018. On 20 March 2017, the contractor issued a performance security bond of Kshs.453,064,846 being 20% of the contract sum in favour of KLDC and EPZA as per clause 13.2.1 of the contract agreement that expired on 20 March 2018.
- (iv) Clause 13.2.2 of the contract indicate that, the amount of performance security shall be reduced in proportion to the value of the facility/ work executed by and paid to the contractor from time to time and shall become void when the full amount of the security has been recovered by the employer. Contrary to clause 13.2.2 of the contract, the Council paid Kshs.90,000,000 for certificate No.2 instead of recovering from the advance payment whose security has already expired. This leaves the Council being exposed to the extent of Kshs.385,000,000 held by the contractor without any valid security.

- (v) Both KLDC and EPZA claim 50% stake in the project. However, KLDC made a payment of Kshs.385,105,119 over and above the 50% cost of the joint venture which is equivalent of Kshs.226,532,435.
- (vi) The project has currently stalled because of the uncertainty of the site where it was being constructed. The State Department of Public Works has recommended the project be relocated in another suitable site and works should commence afresh. This would amount to wastage of resources already paid to the contractor and cast doubt as to whether the environmental assessment by NEMA had initially been conducted and implemented.

In the circumstances, it has not been possible to ascertain that contractor is executing his work as per the contract agreement and whether value for money, commensurate with the work already done by the contractor will be obtained. Further, the Council is at risk to the extent of Kshs.385,000,000 held by the contractor without any valid security since the security deposited in the bank by the contractor matured and has not been renewed.

1.3 Construction of Precast Boundary Wall at Kenya Leather Park

The Council entered into a contract with Lirona Construction Limited in 2016 for the construction of Precast Boundary wall at Kenya Leather Park- Kenanie in Machakos County at a contract price of Kshs.108,057,543. The project was planned to commence on 24 March 2016 and anticipated completion date being 2 October 2017.

The total payment to the contractor as at 30 June 2018 amounted to Kshs.94,958,801 and the retention amount of Kshs.11,890,587 held in a deposit account. Physical inspection conducted on the project revealed that there were no construction activities since part of the wall had collapsed as a result of floods experienced in early 2018. A section of the perimeter wall which had collapsed appeared to be the one erected on swampy areas, pointing to a possibility that geotechnical survey may not have been carried out before commencement of works.

Unless the project is completed, the Council is likely not to realize its planned objective of safeguarding the Kenya Leather Park land.

2. Management of a Contract

As previously reported, the Council entered into a contract with local company in 2015/2016 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 had indicated that there was a concept paper as well as a Memorandum of Understanding (MoU) on the 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% Kshs.16,607,708) of the contract value was paid to the supplier in 2015/2016.

During the financial year 2016/2017, the Council made a further payment of 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.

In addition, during the year 2015/2016, the Council engaged another local company at a contract price of Kshs.17,390,148 for supply, delivery, installation and training of foot wear and leather goods manufacturing equipment/machines, resulting into a total cost of the said equipment of Kshs.100,428,687. During the year under review, the Council made a further payment of Kshs.15,651,133 to the latter local company even before the equipment procured from the first local company were delivered, installed, commissioned and users trained on how to operate. Though all the machines were eventually delivered and the Council paid a total of Kshs.92,046,586 out of Kshs.100,428,687, these equipment have been stored at the Council premises for more than two years without being installed, tested and put to the intended purposes hence raising concern of the equipment going to waste.

Consequently, the value for money in respect of the two local companies with a paid sum Kshs.92,046,586 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 judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section. I have determined that there are no Key Audit Matters to communicate in my report.

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 301.1ha 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 they would be shared were not defined. In addition, it was not clear which of the two institutions was to incorporate in its books of account the operations and the ownership of the industrial park.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

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

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual

Basis) and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the Council's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Council either to cease operations, or have no realistic alternative but to do so.

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

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


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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the sustainability of services, 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 continue as a going concern. 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 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 Council 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 April 2019

KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

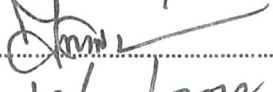

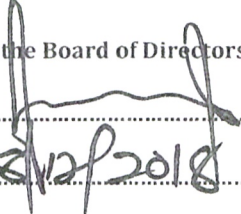
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018

	Note	2017-2018	2016-2017
Revenue from non-exchange transactions			
G.o.K Grant -Recurrent	2	60,919,000	35,600,000
G.o.K Grant -Development		74,904,628	75,789,318
		<u>135,823,628</u>	<u>111,389,318</u>
Revenue from exchange transactions			
Training and Production Centre for Shoes Industry		731,972	1,041,027
UNOPS Project		1,219,799	6,310,747
Total Revenue		137,775,399	118,741,092
Expenses			
UNOPS Project		1,785,550	4,777,253
Goods and Services	3	0	382,908
Employee Costs	4	24,657,900	21,765,360
Remuneration of Directors	5	9,920,342	9,968,002
Depreciation and Amortization	6	48,605,289	36,143,953
Repairs and Maintenance	7	844,855	861,527
Contracted Services	8	2,587,368	21,238,914
General Expenses	9	34,851,590	29,418,513
Total Expenses		123,252,894	124,556,430
Surplus before Tax		14,522,505	(5,815,338)
Taxation		-	-
Surplus for the year		14,522,505	(5,815,338)

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

Description	Note	2017-2018	2016-2017
Assets			
Current Assets			
Cash and Cash Equivalents	10	127,061,565	85,923,167
Salary Advance		0	28,361
Receivables from non-exchange transactions		548,172,500	0
Inventories	11	4,344,808	2,371,937
Prepayments	15	5,578,164	388,147,892
Total Current Assets		685,157,037	476,471,357
Non-Current Assets			
Property, Plant and Equipment	12	256,748,032	184,502,012
Intangible Assets	14	13,187,499	19,830,749
Total Non- Current Assets		269,935,531	204,332,761
Total Assets		955,092,568	680,804,118
Liabilities			
Current Liabilities			
Trade and Other Payables from non-exchange transactions	13	27,400,506	20,805,947
		27,400,506	20,805,947
Non-Current Liabilities			
		-	-
Total Liabilities		27,400,506	20,805,947
Net Assets		927,692,062	659,998,171
Capital Fund		594,806,054	457,210,682
Retained Earnings		202,787,489	202,787,489
Accumulated Surplus/Deficit		14,522,505	-
Total net Assets and Liabilities		955,092,568	680,804,118

The financial statements set out on pages 1 to 23 was signed on behalf of the Board of Directors by:

Sign  Sign  Sign 
 Date 18/12/2018 Date 18/12/2018 Date 18/12/2018

Dr. Issack M. Noor PhD
 Chief Executive Officer

Gladys N. Mwangi
 ICPAK Member No. 11120

Abdi Bare Duale
 Chairman of the Board

KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2018

	Retained Earnings	Capital Fund	Total
Balance as at 30 June 2016	219,851,046	596,304	220,447,350
Deficit for the Period	(5,815,338)	0	(5,815,338)
Revaluation	(11,248,219)	(596,304)	(11,844,523)
Capital Fund (Net Increase)	0	457,210,682	457,210,682
Balance as at 30 June 2017	202,787,489	457,210,682	659,998,171
Surplus for the period	14,522,505	0	14,522,505
Capital Fund (Net Increase)	0	137,595,372	137,595,372
Balance as at 30 June 2018	217,309,994	594,806,054	812,116,048

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE
2018**

Cash Flows from operating Activities		2017-2018	2016-2017
Government Grants:	2	273,419,000	568,600,000
Other Income:			
TPCSI(Training and Production Centre-Shoes Industry	2	731,972	1,041,027
UNOPS	2	1,219,799	6,310,747
Total Receipts		275,370,771	575,951,774
Payments			
Employee Costs	4	24,657,900	21,765,359
UNOPS Project		1,785,550	4,777,253
Boards and Committee	5	9,920,342	9,968,002
Contracted Services	8	2,587,368	21,238,914
General Expenses	7+9	35,696,445	30,662,948
Other Payments <i>retention transferred to deposit account</i>	13	27,400,506	-
Prepayments 2017/2018	15	5,578,164	388,147,892
Inventories			(2,371,937)
Total- Payments		107,626,275	474,188,431
Net Cash Flows from Operating Activities		167,744,496	101,763,343
Cash Flows from Investing Activities			
Purchase of Property, Plant, Equipment &Intangible Assets	12	(126,526,085)	(202,226,531)
Net Cash Flows Used in Investing Activities		(126,526,085)	(202,226,531)
Net Increase/(Decrease) in Cash and Cash Equivalents		41,218,411	(100,463,188)
Cash and Cash Equivalent at 1st July		85,843,154	186,306,342
Cash and Cash Equivalent at 30th June 2018		127,061,565	85,843,154

KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2018

ITEM	APPROVED ESTIMATES 2017/2018	ACTUAL RECEIPTS	COMMITMENTS	PAYMENTS	RECURRENT BUDGET DEVIATION	ACTUAL PAYMENTS	ACTUAL BALANCES
2 10101 Basic salaries(CEO)	6,408,408	5,750,218	-	6,570,000	(161,592)	6,731,592	(981,374)
2110201 Contractual Employees		-	-	-	-	-	-
2 10202 Casual labour	5,223,407	4,686,925	-	6,076,823	(853,416)	6,930,239	(2,243,314)
2 10302 Honoraria	960,000	861,401	-	384,516	575,484	(190,968)	1,052,369
2110310 Top-up Allowances	26,896,167	24,133,736	-	11,941,079	14,955,088	(3,014,009)	27,147,745
2 10200 Basic Wages –Employees		-	-	-	-	-	-
2210101 Electricity	95,498	85,690	-	56,631	38,867	17,764	67,926
2 10102 Water and Sewerage Charges	26,700	23,958	-	18,728	7,972	10,757	13,201
2 10201 Telephone, Telex, Facsimile and Mobile phone Services	1,068,000	958,309	-	1,020,000	48,000	972,000	(13,691)
2210202 Internet Connection	240,000	215,350	-	271,911	(31,911)	303,821	(88,471)
2 10203 Courier and postal services	10,000	8,973	-	46,990	(36,990)	83,980	(75,007)
2 10301 Travel Costs (Airline, bus ,Railway, mileage allowance, etc)	-	-	-	163,370		163,370	(163,370)
2210303 Daily subsistence Allowance	300,000	269,188		7,150,139	(6,850,139)	14,000,278	(13,731,090)
2 10304 Sundry items(eg Airport tax, taxis etc)	-	-	-	-	-	-	-
2210400 Foreign Travel and other transport cost	250,000	224,323	-	177,257	72,743	104,514	119,809
2 10401 Foreign Travel Costs (Airline, bus, railway etc)		-	-	-	-	-	-
2210502 Printing and publishing	100,000	89,729	-	62,000	38,000	24,000	65,729
2210503 Subscription to news paper	100,000	89,729	-	56,140	43,860	12,280	77,449
2 10504 Advertising awareness and publicity	100,000	89,729	-	142,500	(42,500)	185,000	(95,271)
2210505 Trade shows and exhibitions	100,000	89,729	-	1,011,820	(911,820)	1,923,640	(1,833,911)
2 10603 Rent and rates non residential	10,400,000	9,331,845	-	12,840,505	(2,440,505)	15,281,010	(5,949,165)

KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

1701	Training Expenses	300,000	269,188	-	269,187	30,813	238,374	30,814
1801	Catering Services (Workshops) & Accommodation	200,000	179,459	-	179,458	20,542	158,916	20,543
1808	Purchase of coffins	100,000	89,729	-	-	100,000	(100,000)	189,729
1809	Boards, Committees, Conferences and Seminars	6,018,956	5,400,766	-	8,206,380	(2,187,424)	10,393,804	(4,993,039)
1901	Medical Insurance(board members)	2,500,000	2,243,232	-	1,789,306	710,694	1,078,612	1,164,620
1904	Motor Vehicles Insurance	1,500,000	1,345,939	-	791,867	708,133	83,734	1,262,205
2016	Purchase of uniforms and Clothing – Staff	178,000	159,718	-	25,800	152,200	(126,400)	286,118
2101	General office supplies	150,000	134,594	-	134,594	15,406	119,188	15,406
2102	Supplies and accessories for computers and printers	100,000	89,729	-	89,729	10,271	79,458	10,271
2103	Sanitary & cleaning materials	150,000	134,594	-	-	150,000	(150,000)	284,594
2202	Refined fuels and lubricants	300,000	269,188	-	269,188	30,812	238,376	30,812
2301	Bank services, commission and charges	60,998	54,733	-	25,476	35,522	(10,046)	64,779
2305	Contracted Guards and cleaning Services	700,000	628,105	-	834,368	(134,368)	968,736	(340,631)
2306	Membership fees, Dues & Subscriptions to professional & trade bodies	55,866	50,128	-	44,051	11,815	32,236	17,892
2310	Contracted professional service	3,000,000	2,691,878	-	-	3,000,000	(3,000,000)	5,691,878
2401	Motor vehicle maintenance	300,000	269,188	-	269,187	30,813	238,374	30,814
2405	Maintenance of building and stations	-	-	-	-	-	-	-
2410	Maintenance of computers software and	-	-	-	-	-	-	-
	TOTAL	67,892,000	60,919,000	-	60,919,000	6,973,000	53,946,000	6,973,000

NB: The fourth quarter allocation was revised by KSH. 6,973,000 as a result there were deviations in the budget.

KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

KENYA LEATHER
DEVELOPMENT
COUNCIL

EXPENDITURE RETURNS
DEVELOPMENT
ACCOUNT

ITEM	TITLE	APPROVED ESTIMATES 2017/2018		COMMITMENTS	PAYMENTS	TOTAL COMMITMENTS	ACTUAL BALANCE
		Budget	Receipt				
	Administrative Expenses						
2210301	Domestic travel & subsistence and other transportation costs	500,000.00	132,812.50	-	-	-	132,812.50
2210302	Accommodation domestic travel	1,000,000.00	265,625.00	-	-	-	265,625.00
2210303	Daily subsistence allowance	3,000,000.00	796,875.00	-	467,000.00	-	329,875.00
2210304	Sundry items	500,000.00	132,812.50	-	-	-	132,812.50
2210400	Foreign travel			-		-	0.00
2210401	Foreign travel	700,000.00	185,937.50	-	-	-	185,937.50
2210402	Accommodation	1,000,000.00	265,625.00	-	-	-	265,625.00
2210403	Daily subsistence allowance	1,500,000.00	398,437.50	-	-	-	398,437.50
2210404	Sundry items	300,000.00	79,687.50	-	-	-	79,687.50
2210500	Printing advertising			-		-	0.00
2210502	Printing advertising	2,000,000.00	531,250.00	-	-	-	531,250.00
2210504	Publicity and communication	2,500,000.00	664,062.50	-	-	-	664,062.50
2210700	Training expenses			-		-	0.00
2210701	Training expenses	1,500,000.00	398,437.50	-	-	-	398,437.50
2210711	Tuition fee	3,500,000.00	929,687.50	-	-	-	929,687.50
2210800	Hospitality supplies and services			-		-	0.00
2210801	Hospitality supplies and services	1,095,000.00	290,859.38	-	-	-	290,859.38
2210809	Boards, committees, conferences	1,000,000.00	265,625.00	-	-	-	265,625.00
2210900	Insurance costs			-		-	0.00
2210901	Insurance			-		-	0.00
2211000	General supplies and services			-		-	0.00
2211101	Office & general supplies services	2,000,000.00	531,250.00	-	531,250.00	-	0.00
2211102	Supply and accessories for computers and printers	3,000,000.00	796,875.00	-	796,875.00	-	0.00

KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

200	Fuel, oil and lubrication						0.00
201	Fuel, oil lubrication	2,500,000.00	664,062.50		419,610.00		244,452.50
300	Other prational expenses						0.00
310	Contracted professional supplies						0.00
311	Contracted technical services	1,000,000.00	265,625.00				265,625.00
100	Routine maintainance						0.00
101	Motor vehicle maintenance	2,500,000.00	664,062.50				664,062.50
200	Routine maintainance- other cost						0.00
202	Maintainance of office furniture & equ	350,000.00	92,968.75				92,968.75
210	Maintainance of computer software a	400,000.00	106,250.00				106,250.00
212	Maintainance of comm equip	500,000.00	132,812.50				132,812.50
701	Purchase of motor vehicle						0.00
001	Purchase of office furniture & equipment	1,250,000.00	332,031.25				332,031.25
002	purchase of computer printers	1,000,000.00	265,625.00				265,625.00
100	Purchase of specialized plant, equipment & machinery						0.00
111	Purchase of specialized plant, equipment & machinery	500,000.00	132,812.50		17,390,281.00		(17,257,468.50)
112	purchase of software	250,000.00	66,406.25				66,406.25
500	TRADE SHOWS AND EXHIBITIONS						0.00
505	Trade shows and exhibitions	2,500,000.00	664,062.50				664,062.50
700	KARIOKOR CLUSTER PROJECT						0.00
700	Training expenses						0.00
701	Training						0.00
701	Travel allowance						0.00
703	Production and printing						0.00
704	Hire of training facilities and equip						0.00
711	Tuition fees allowance						0.00
000	specialized materials						0.00
016	Purchase of uniforms clothing						0.00
300	Other operating expenses						0.00
310	Contracted professional services						0.00

KENYA LEATHER DEVELOPMENT COUNCIL
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

2	.1311	Contracted technical service	-	-	-	-	0.00
3111000		Purchase of office furniture and general equipment	-	-	-	-	0.00
3111002		Purchase of computers printers and other it equipments	-	-	-	-	0.00
3	.0300	Refurbishment of building	-	-	-	-	0.00
2220201		Maintainance of plants machinery&equipments	1,000,000.00	265,625.00	-	-	265,625.00
		Revitalization of training and production center	-	-	-	-	0.00
2210700		Training expenses	-	-	-	-	0.00
2	.1000	Office and general supplies &services	-	-	-	-	0.00
2220201		Maintainance of plants machinery and equipment	500,000.00	132,812.50	-	-	132,812.50
3	.0302	Refurbishment of building	10,000,000.00	2,656,250.00	-	-	2,656,250.00
		Resource mapping and development	-	-	-	-	0.00
2	.0700	Training expenses	-	-	-	-	0.00
2210704		Hire of training facilities and equip	-	-	-	-	0.00
2	.1310	Contracted proffesional service	500,000.00	132,812.50	-	-	132,812.50
2111100		ICT Networking &Communication	-	-	-	-	0.00
		Kinanie project	-	-	-	-	0.00
2210100		Utilities supplies and service	-	-	-	-	0.00
2	.0101	Electricity	-	-	-	-	0.00
2210102		Water	-	-	-	-	0.00
2	.0200	Communication supplies and services	-	-	-	-	0.00
2210201		Telephone expenses	-	-	-	-	0.00
2	.0300	Domestic travel subsistance &other transport cost	1,000,000.00	265,625.00	-	-	265,625.00
2210400		Foreign Travel	2,000,000.00	531,250.00	-	-	531,250.00
2	.0605	Rental of produced assets	-	-	-	-	0.00
2210500		Printing Advertisement &advertising	-	-	-	-	0.00
2	.0504	Advertising awareness and publicity campaigns	-	-	-	-	0.00
2210505		Trade show and exhibitions	22,000,000.00	5,843,750.00	-	3,341,625.00	2,502,125.00
2	.0600	Rental of produced assets	-	-	-	-	0.00
2210605		Hire of training facilities and equip	-	-	-	-	0.00

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300	Hospitality supplies & services	-	-	-	-	0.00
	Catering services					
	(Receptions) accomodation					
301	gifts foods	1,500,000.00	398,437.50	-	-	398,437.50
302	Board, commitees and coference	2,000,000.00	531,250.00	-	-	531,250.00
200	Fuel & lubricants	-	-	-	-	0.00
201	Motor vehicle fuel	900,000.00	239,062.50	-	-	239,062.50
500	Construction and civil works	-	-	-	-	0.00
	Other infranstructure and civil works e,g common					
504	efflunt treatment plant	720,755,000.00	191,450,546.88	121,713,716.46	-	69,736,830.42
400	Research, feasibility, project preparation and design	-	-	-	-	0.00
402	Engeneering and design plans	-	-	-	-	0.00
	GRAND TOTAL	800,000,000.00	212,500,000.00	-	144,660,357.46	67,839,642.54

variance of Kshs. 17,257,468.50 on purchase of agricultural machinery and equipment was funded by b/F for the F/Y 2016/2017.

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 Minster 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's policy is to apportion operating expenses incurred under Development vote to the statement of Financial Performance and the balance of Development Income for Development Projects is apportioned to statement of changes in net assets under Capital Fund. Recurrent operating expenses and Revenue are fully recognized to the statement of Financial Performance

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%

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Furniture, Fittings and Equipment	12.5%
Plant and Machinery	33.3%

f) Leases – IPSAS 13

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

	30.6.18(Kshs)	30.6.2017(Kshs)
Trade payables	<u>29,272,258</u>	<u>20,805,947</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 assets recognized in the Councils books relate to accounting software and leasehold improvements.

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.

l) 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, 2018

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.

NOTES TO THE FINANCIAL STATEMENTS

2. The Council's policy is to apportion operating expenses incurred under Development vote to the statement of Financial Performance and the balance of Development Income for Development Projects is apportioned to statement of changes in net assets under Capital Fund. During the financial year under review an amount of Ksh 74,904,628 relating to development income was apportioned to the statement of financial performance and the balance of Ksh 137,595,372 for capital expenditure transferred to Statement of changes in net assets. Recurrent operating expenses and Revenue are fully recognized to the statement of Financial Performance

NOTES TO THE FINANCIAL STATEMENTS

DESCRIPTION	2017-2018	2016-2017
2. Transfers from Ministries, Departments and Agencies		
State Department of Industry & Investment- Recurrent Grant	60,919,000	568,600,000

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State Department of Industry & Investment- Development Grant	212,500,000	
TOTAL	273,419,000	568,600,000
Other Income:		
Training and Production Centre for Shoes Industry	731,972	1,041,027
UNOPS Project	1,219,799	6,310,743
Total Income	275,370,771	575,951,770
3. Goods and Services		
Electricity		98,273
Water		284,635
Total bulk purchases	-	382,908
4. Employee costs		
Salaries	14,210,098	12,693,618
Casual Wages	5,110,829	4,707,821
Income Tax -PAYE	4,413,679	3,755,778
NSSF	675,444	391,753
NHIF	247,850	216,390
Employee costs	24,657,900	21,765,360
5. Board expenses		
Chairman's Honoraria	384,516	960,000
Medical Insurance (Board)	1,789,306	2,364,006
Add prepaid 2016/2017 insurance	1,695,127	(1,695,127)
Less prepaid 2017/2018 insurance	(1,770,471)	
Directors emoluments	7,821,864	8,143,558
Total director emoluments	9,920,342	9,772,437
6. Depreciation expense		
Property, plant and equipment	46,961,727	36,143,953
Total depreciation and amortization	46,961,727	36,143,953
7. Repairs and maintenance		
Motor Vehicle Maintenance	814,855	861,527

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Maintenance of office furniture & Equipment	25,000	
Maintenance of Internet	5,000	
Total repairs and maintenance	844,855	861,527
8. Contracted services		
Contracted Guards	834,368	1,134,114
Consultancy Services	1,753,000	20,104,800
Total contracted services	2,587,368	21,238,914
9. General expenses		
	Shs	Shs
Electricity	56,631	98,273
Newspaper Subscription	56,140	94,660
Water	18,728	284,635
Telephone Expenses	1,020,000	815,031
Foreign Travel	177,257	1,953,121
Hire of Conference Facility		548,594
Catering Expenses	1,696,205	764,217
Training Expenses	540,790	2,297,362
Daily Subsistence Allowance	9,886,088	5,820,342
Total Internet Connections	256,910	185,600
General Office Supplies	7,737,155	5,092,993
Domestic Travel	141,370	
Courier & Postal Charges	15,885	46,990
Office Rent	10,272,404	8,091,941
Total Motor Vehicle Insurance	484,929	752,256
Total Motor Vehicle Fuel	836,445	813,466
Maintenance of Furniture and Equipment		229,600
Motor Vehicle Maintenance		631,927
Publicity	62,000	
Subscription & Membership fees	44,051	55,866
Purchase of Uniforms	25,800	178,001
Bank Charges	46,982	61,018
Audit Fees	464,000	464,000
Trade Shows	1,011,820	1,383,055
Total general expenses	34,851,590	30,662,948
10. Cash and cash equivalents		
Recurrent Account	7,452,509	85,843,154
Deposit account	731,972	

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Development account	118,660,926	
Cash in Hand	216,158	80,013
Total cash and cash equivalents	127,061,565	85,923,167
a) Current account		
Financial institution	31.12.2017	prior year
	Shs	Shs
Kenya Commercial bank	7,452,509	95,001,769
Sub- total	7,452,509	95,001,769
11. Inventories		
Consumable Stores	4,344,808	2,371,937
Total inventories at the lower of cost and net realizable value	4,344,808	2,371,937
13. Trade and other payables from Non-exchange transactions		
Kenya Leather Park retentions	20,890,587	15,004,347
Plant and Machinery retentions	6,509,919	5,801,600
Total trade and other payables	27,400,506	20,805,947
14. INTANGIBLE ASSETS		
Cost		
At beginning of year 2016/17	132,000	132,000
Additions 2016/17	26,440,999	26,440,999
At end of year at cost 2016/17	26,572,999	26,572,999
additions 2017/18	-	
At the end of year at cost 2017/18	26,572,999	
Amortization and Impairment		
At beginning of year 2016/17	99,000	99,000
Amortization 2016/17	6,643,250	33,000
Total at the end of year	6,742,250	
Amortization 2017/18	6,643,250	6,610,250
Net Book Value June 30.6.2017	19,830,749	19,830,749
Net Book Value June 30.6.2018	13,187,499	
15. Prepayments		
Fuel	636,415	297,605

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Medical	1,770,471	1,695,127
Motor Vehicle Insurance	343,177	370,252
Internet Connections	260,000	240,000
Office Rent	2,568,101	-
Kenya Leather Park (CETP)		385,105,119
Kenya Leather Park (Precast Wall)		439,792
Total	5,578,164	388,147,895

12. PROPERTY, PLANT AND EQUIPMENT

	Motor vehicles	Furniture and fittings	Computers	Plant and Equipment	Capital In Progress	Total
Cost	Shs	Shs	Shs	Shs	Shs	Shs
At 30th June 2016	16,740,888	3,817,114	7,972,014		16,471,676	45,001,692
Additions up to 30.6.2017	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
At cost (Current)	26,284,576	10,155,289	10,016,571	76,395,452	97,935,336	220,787,224
Additions up to 30.6.2018	-	240,000	1,450,000	15,651,133	109,184,952	126,526,085
At cost (Current)	26,284,576	10,395,289	11,466,571	92,046,585	207,120,288	347,313,309
Depreciation and impairment						
B/F 1 July 2016	7,124,104	954,279	4,239,644	-	-	12,318,027
Depreciation	6,571,144	1,269,411	3,004,972	25,439,684	-	36,285,211
At 30 June 2017	13,695,248	2,223,690	7,244,616	25,439,684	-	48,603,238
Total Depreciation as at 30.6.2017	13,695,248	2,223,690	7,244,616	25,439,684	-	48,603,238
Depreciation	6,571,144	1,299,411	3,439,971	30,651,513		41,962,039
Depreciation as at 30.06.2018	20,266,392	3,523,101	10,684,587	56,091,197	207,120,288	90,565,277
Net book values						
At 30 June 2016	9,616,784	2,862,835	3,732,370	-	16,471,676	32,683,665
As at 30 June 2017	12,589,328	7,931,599	2,771,955	50,955,768	97,935,336	172,183,986

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As at 30th June 2018 6,018,184 6,872,187.75 781,984 35,955,388 207,120,288 256,748,032

* R (Restated figures-Depreciation component.)

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. of 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)
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The Council's accounts for the year 2016/2017 were audited in 2017/2018 and the council is waiting for the auditor's comments/report for implementation.

CHIEF EXECUTIVE OFFICER,

SIGNATURE 

Date 18/12/2018

KENYA LEATHER DEVELOPMENT COUNCIL
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APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Project title	Number	Donor	Period/ duration	Donor commit ment	Separate donor reporting (yes/no)	Comments
1 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.
2 Kariokor Leather Cluster	2	GOK		None	No	

STATUS OF PROJECTS COMPLETION

Project	Total project Cost	Total expe nded to date	Comple tion % to date	Budget	Actual per quarter
1 Upgrading Infrastructure- Kenya leather Park	4.409B		23%	739,623,047	184,905,762
2 Kariokor Leather Cluster			80%	3,137,500	784,375

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APPENDIX III INTER- ENTITY TRANSFERS

DESCRIPTION	2017-2018	2016-2017	
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	135,823,628	273,419,000	568,600,000
TOTAL	135,823,628	273,419,000	568,600,000

NB: RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

The amount of ksh 548,172,500 recognized to the statement of financial position as receivables from non-exchange transactions was Development Grants for 2017/2018 FY which were not remitted to the council as at 30.6.2018.

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 were trained on risk management for Audit Committee members.

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 Africa Leather and Leather Products Institute /ALLPI. In achieving these objectives, KLDC focused 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.