

REPUBLIC OF KENYA



**KENYA NATIONAL AUDIT OFFICE**



**REPORT**

**OF**

**KENYA NATIONAL AUDIT OFFICE  
THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
ANTI-COUNTERFEIT AGENCY**

**FOR THE YEAR ENDED  
30 JUNE 2014**

V3





**anti  
counterfeit  
agency**

*educate, enforce, eliminate*

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**ANTI-COUNTERFEIT AGENCY**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

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

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

I. KEY ENTITY INFORMATION AND MANAGEMENT ..... ii

II. THE BOARD OF DIRECTORS ..... vi

III. MANAGEMENT TEAM ..... x

IV. CHAIRMAN'S STATEMENT ..... xii

V. REPORT OF THE CHIEF EXECUTIVE OFFICER ..... xiii

VI. REPORT OF THE DIRECTORS ..... xv

VII. STATEMENT OF DIRECTORS' RESPONSIBILITIES ..... xvi

VIII. REPORT OF THE INDEPENDENT AUDITORS ON THE ANTI-COUNTERFEIT AGENCY ..... xviii

IX. STATEMENT OF FINANCIAL PERFORMANCE ..... 1

X. STATEMENT OF FINANCIAL POSITION ..... 2

XI. STATEMENT OF CHANGES IN NET ASSETS ..... 3

XII. STATEMENT OF CASH FLOWS ..... 4

XIII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS ..... 5

XIV. NOTES TO THE FINANCIAL STATEMENTS ..... 6



Mr. Martin Gumo  
National Treasury

Date of birth: 01/11/1954  
Key qualifications: Bachelor of Commerce – University of Nairobi; CPA(K)  
Work experience: Key negotiator in the EAC Common Market Protocol negotiations



Ms. Beatrice Memo  
Kenya Revenue Authority

Date of birth: 06/08/1959  
Key qualifications: Master of Business Administration (Strategic Management); Bachelor of Commerce - University of Nairobi.  
Work experience: Commissioner of Customs Services. Oversee the operations of the Customs Services Department within Kenya Revenue Authority



Selasio Njiru  
Department of Weights & Measures

Date of birth: 25/09/1954  
Key qualifications: KAG University B.A. Bible and Theology (on going)  
Work experience: Deputy Director Technical and Laboratory Services. Main duties include Enforcement of Trade Description Act Cap 505; approval of metrological patterns for trade use and review of Technical testing Procedures for Legal Metrological Equipments.



Ms. Betty Maina  
Kenya Association of Manufacturers

Date of birth: 03/04/1965  
Key qualifications: MSC in Development Administration and Planning – University College London; BA (Hons) Land Economics, University of Nairobi.  
Work experience: Leading Kenya Premier Business Association, representing the interest of the industry with nearly 600 members. Work undertaken is both advocacy as well as business service provision.

 <p>Mr. Alexander Muteti Office of Public Prosecutions</p>	<p>Date of birth: 8/09/1974 Key qualifications: Moi University (LLB, Hons, Kenya School of Law (Diploma in Law) Work experience: Principal State Counsel – Department of Public Prosecutions. Work includes undertaking criminal prosecutions, representing Government Ministries and Departments, representing Government of Kenya in international meetings and conferences.</p>
 <p>Ms. Marisela Ouma Executive Director Kenya Copyright Board</p>	<p>Date of birth: Work experience: an Advocate of the High Court of Kenya with sixteen years of well-rounded experience in law specializing in Intellectual Property. She was instrumental in drafting intellectual property laws in Kenya and the establishment of the Kenya Copyright Board, which currently employs 38 members of staff. She was a Herchel Smith Scholar at Queen Mary University of London and a research fellow at the Max Planck Institute of Tax, Intellectual Property and Competition Law, Munich. Dr Ouma has taught Intellectual Property Law at the University of Nairobi and co taught at the Queen Mary University of London and at the WIPO/African University MIP course in Mutatre, Zimbabwe. She has been involved in various research projects and has published in the area of Intellectual Property Law.</p>
<p>Emmanuel Bitta Ag. Senior Principal State Counsel Office of Attorney General</p>	<p>Date of birth: 29/07/1977 Key qualifications: Bangalore University, LLB 2nd Class Honours , Kenya School of Law (Diploma in Law) Work experience: Formulation and monitoring the implementation of case management strategies within the section. Providing guidance and consultation on all complex litigation within the section. Undertaking research for the Attorney General in Judicial review cases, constitutional matters and advisory opinions.</p>

### III. MANAGEMENT TEAM



Dr. John Akoten  
PhD, MSc, BSc

Ag. Executive Director



Mr. Johnson Adera  
LLM, LLB, CPS

Deputy Director Enforcement & Legal  
Services



Mrs. Agnes Karingu  
MBA, BSc

Ag. Deputy Director Research & Awareness



Mr. Michael Aremon

Assistant Director, Quality Assurance

<p>MBA (Ongoing), BCom, CISA</p>	
 <p>Mr. Abdikadir Mohamed MBA (Ongoing), BSc</p>	<p>Assistant Director Enforcement</p>
 <p>Mr. Elijah Ruttoh M Econ (Econometrics), B.Ed</p>	<p>Assistant Director Research</p>
 <p>Ms. Fridah Kaberia MBA (Finance), BA (Econ), CPA(K)</p>	<p>Ag. Assistant Director Finance</p>

#### IV. CHAIRMAN'S STATEMENT

It is with great pleasure that I present my report in the fourth year of operations of the Anti-Counterfeit Agency.

To reiterate the statutory functions of the Agency, it is mandated to:

- a) enlighten and inform the public on matters relating to counterfeiting:
- b) combat counterfeiting trade and other dealings in counterfeit goods in Kenya in accordance with this Act:
- c) devise and promote training programmes on combating counterfeiting:
- d) co-ordinate with national, regional or international organizations involved in combating counterfeiting:
- e) carry out any other functions prescribed for it under any of the provisions of this Act or under any other written law and:
- f) perform any other duty that may directly or indirectly contribute to the attainment of the foregoing.

The fulfilment of the above objectives by the Anti-Counterfeit Agency therefore provides its score card. Elsewhere in this report, management has detailed the activities and initiatives taken in achieving the above objectives.

I am hearted by the fact that in spite of scarce resources and a skeleton workforce, the Agency has achieved so much in pursuance of its fulfilment of its statutory obligations in such a short time.

The Board has been able to guide the preparation of the Agency's first Strategic Plan which forms the blue print for the Agency's activities for the next five years.

For the achievements that the Agency has recorded as contained in the pages in this report, I, on behalf of the Board of Directors commend the Ministry of Industrialization & Enterprise Development and the Government as a whole, my fellow Directors in the Board and Management and staff of the Agency.

The Board and I would however like to encourage greater cooperation between the Agency and the Intellectual Property Rights holders together with those of our regional and international collaborators as this is the key to the success of the Agency in its endeavours.

There has been a tendency to criticize the Agency on it is perceived inability to effect more arrests and slow down the activities of the counterfeiters. The reality of the situation is that the Agency is still ill-equipped to optimize its enforcement mandate. It should also always be born in mind that counterfeiting is essentially a crime like any other and that nowhere in the world has crime ever been eliminated and the best that can be done is to minimize its adverse effects.

I am happy that the Anti-Counterfeit Agency is working towards this goal and scoring well and I am confident that as time goes by it will continue to minimize the adverse effects of counterfeiting.

## V. REPORT OF THE CHIEF EXECUTIVE OFFICER

The Agency falls under the Industry sub-sector within the Tourism, Trade and Industry Sector. The Key Result Area that relates to the mandate of the Agency is Global Competitiveness and by virtue of its mandate is a collaborative Agency.

In many ways, the Financial Year 2013/14 was both challenging and incredibly eventful. The Agency signed its third Performance Contract with the Government of the Republic of Kenya, through the Permanent Secretary of the Ministry of Industrialization and Enterprise Development for the Financial Year 2013/14. Various policies were reviewed and are bearing fruits in terms of result based, more effective and more responsive Agency. Indeed, this has proved to be a landmark year in which the Agency registered strong performance.

The Agency successfully implemented the Performance Contract for the FY 2013/14 and managed to achieve majority of the Performance Contract targets. The Agency achieved a composite score of **2.9658** after performance evaluation for the year 2013/14 which is very good.

In line with the overall mandate; in carrying out public awareness on intellectual property and counterfeiting, the Agency took part in Law Society of Kenya Awareness Week in where they exhibited with other law enforcement agencies. The Tax Payers Awareness Week which was held in collaboration with the Kenya Revenue Authority (KRA) was another forum the Agency used to educate the taxpayers. The Agency held a workshop in collaboration with WIPO in Mombasa. Awareness campaigns e.g. the Fagia Bandia Campaign which covered Busia, Malaba, Kajiado, Namanga, Kisumu etc was carried out in collaboration with the US Embassy.

The Agency held media breakfast in collaboration with the Joint Campaign Against Counterfeiting (JCAC) members and coverage was witnessed in both print and electronic media for public information. We have also conducted Police Sensitization Programs and also participated in East African Cables countrywide training of electricians. We participated in a number of ASK shows i.e. Nakuru ASK, Mombasa ASK show and Nairobi ASK show. The Agency held a sensitization dinner for the Judiciary and LSK in Mombasa in collaboration with US Embassy in which was mainly attended by Prosecutors, Magistrates, Deputy PC Coast and Court Clerks.

The Agency is collaborating with institutions such as KRA, Interpol, RILO, ESA, KEBS and COFEK among others who are engaged in the enforcement of IPR protection. The Agency is also in collaboration with KIPPRA for research purposes. We are also in collaboration with other stakeholders from both the public and private sector in various awareness activities through the Joint Committee Against Counterfeits (JCAC) to help educate the public.

During the Financial Year, the Enforcement Department together with the Awareness Division has made significant progress on intellectual property enforcement, investigations, and seizures. These seizures are in addition to the increased training, arrests, warrant executions, and other activities that the Agency has successfully undertaken.

The Agency has a nationwide mandate and jurisdiction. It has proven to be exceedingly difficult for the Agency to provide services to all parts of the country especially key entry points and border posts. However, the Agency has been operating from its headquarters in Nairobi and sending its enforcement staff to various towns to carry out enforcement activities. This, at times, has proved to be less efficient.

To partly address the problem, the Agency recently opened a branch office in Mombasa but the office is manned by only two inspectors who cannot do much. The branch office requires more inspectors. The Agency also plans to open new offices in Kisumu and Eldoret once funds are available. The Kisumu office will take care of the entry points (such as Sioport and Malaba) as well as Kisumu city which is an upcoming and growing city in Western Kenya, while the Eldoret office will take care of Eldoret International Airport which is increasingly becoming the conduit for counterfeit goods.

On the side of public outreach, although the Agency has created awareness about counterfeiting and piracy among the public, especially those in key urban centres, much is needed to sensitize the public about the dangers of consuming these illicit goods. The rural populace should also be targeted this time round since counterfeiting and piracy can immensely affect food security and productivity of the rural populace.

With regard to research there are no authoritative data on counterfeiting that government can rely on. In this respect the Agency will carry out a baseline survey countrywide to determine in extent of counterfeiting in Kenya. This will inform policy on the operations of the Agency.

Counterfeiting and piracy remains a serious development challenge not only in developed countries but also in developing economies. Globally, by 2008 the vice was costing the world US\$ 650 billion. This is expected to rise to US\$ 1.77 trillion by the year 2015 if the vice is not stopped. In Kenya, it is estimated that the government is losing Kshs 19 billion in lost taxes while the private sector is losing Kshs 50 billion in lost sales revenue. Other effects include lost investments, lost job opportunities, retrenchment, as well as safety and health hazard. Consumers also suffer because they do not obtain value for money of what they purchase.

To address this problem, the Agency wishes to undertake the following activities in the short-term:

- a) Carry out enforcement activities through surveillance, seizure and prosecution of offenders;
- b) Sensitize the public about the dangers of purchasing counterfeit goods;
- c) Carry out educational activities about counterfeiting and piracy at various levels of our educational system;
- d) Sensitize key stakeholders in the enforcement such as the police and judiciary about the Anti-Counterfeit Act and the importance of tackling the vice;
- e) Engage in forums, nationally and regionally, to drum up support and sensitize various stakeholders about the need to tackle the problem in a more holistic and programmatic way;
- f) Carry out research to determine awareness levels on counterfeiting among the public and the extent of the counterfeiting problem.

Finally, I would like to commend our Board of Directors, staff of the Agency and also thank each and every one of our stakeholders for your continued support over recent times, your faith and your confidence. We look forward to sharing our efforts, both small and large, with you as we move along through these exciting new chapters.

## VI. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2014 which show the state of the Agency's affairs.

### Principal activities

The principal activities of the entity continue to be to enlighten and inform the public on matters relating to counterfeiting; combat counterfeiting, trade and other dealings in counterfeit goods in Kenya in accordance with the Act or any other written law; devise and promote training programs to combat counterfeiting; and co-ordinate with national, regional or international organizations involved in combating counterfeiting

### Results

The results of the entity for the year ended June 30, 2014 are set out on page 1

### Directors

The members of the Board of Directors who served during the year are shown from page vi to ix.

### Auditors

The Auditor General is responsible for the statutory audit of the Agency in accordance with the Section 68(2)(k) of the Public Finance Management (PFM) Act, 2012.

By Order of the Board



For: Dr. John Akoten  
Ag. Executive Director  
Nairobi

Date: 29/01/15

## VII. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81(1) of the Public Finance Management Act, 2012 and the State Corporations Act, require the Directors to prepare financial statements in respect of the Agency, which give a true and fair view of the state of affairs of the Agency at the end of the financial year and the operating results of the Agency for that year. The Directors are also required to ensure that the Agency keeps proper accounting records which disclose with reasonable accuracy the financial position of the Agency. The Directors are also responsible for safeguarding the assets of the Agency.

The Directors are responsible for the preparation and presentation of the Agency's financial statements, which give a true and fair view of the state of affairs of the Agency for and as at the end of the financial year ended on June 30, 2014. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Agency; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Agency'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 PFM Act and the State Corporations Act. The Directors are of the opinion that the Agency's financial statements give a true and fair view of the state of Agency's transactions during the financial year ended June 30, 2014, and of the Agency's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Agency which have been relied upon in the preparation of the Agency's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Agency 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 Agency's financial statements were approved by the Board on August 29, 2014 and signed on its behalf by:



For: Ag. Executive Director



Chairman



## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON ANTI-COUNTERFEIT AGENCY FOR THE YEAR ENDED 30 JUNE 2014

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#### REPORT OF THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Anti-Counterfeit Agency set out on pages 1 to 13, which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of audit.

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

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

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

#### Auditor-General's Responsibility

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

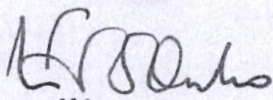
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or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

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

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

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects the financial position of the Agency as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the Anti-Counterfeit Act, 2008.



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

**Nairobi**

**3 February 2015**

**IX. STATEMENT OF FINANCIAL PERFORMANCE**

For the year ended 30 June 2014

	Note	2014 Kshs	2013 Kshs
<b>Revenue from non-exchange transactions</b>			
Transfers from other Governments –	3	172,051,200	172,951,199
Government Grant			
Retained Reserves		-	25,000,000
<b>Revenue from exchange transactions</b>			
Finance income – external investments	4	187,855	152,970
Other Income	5	4,467,000	6,772,450
<b>Total revenue</b>		<b>176,706,055</b>	<b>204,876,619</b>
<b>Expenses</b>			
Employee costs	6	90,307,839	95,224,658
Board of Directors Expenses	7	7,150,783	7,651,640
Depreciation and amortization expense	8	15,377,102	12,335,271
General expenses	9	90,699,981	85,293,683
<b>Total expenses</b>		<b>203,535,705</b>	<b>200,505,252</b>
<b>Deficit for the period</b>		<b>(26,829,650)</b>	<b>4,371,367</b>

The notes set out on pages 6 to 13 form an integral part of the Financial Statements

**X. STATEMENT OF FINANCIAL POSITION**  
**As at 30 June 2014**

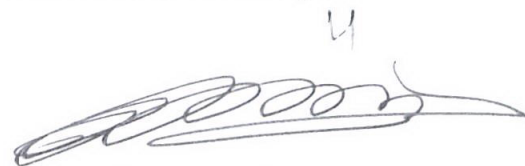
	Note	2014 Kshs	2013 Kshs
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	10	80,270,622	59,652,615
Receivables from non-exchange transactions	11	3,090,805	3,010,815
Inventories	12	1,343,955	2,074,199
		<u>84,705,382</u>	<u>64,737,629</u>
<b>Non-current assets</b>			
Property, plant and equipment	13	42,482,311	46,129,210
Intangible assets	14	254,678	968,176
		<u>42,736,989</u>	<u>47,097,386</u>
<b>Total assets</b>		<u>127,442,371</u>	<u>111,835,015</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from non-exchange transactions	15	1,796,506	9,607,122
Staff Gratuity	16	31,103	4,222,304
		<u>1,827,609</u>	<u>13,829,426</u>
<b>Accumulated Funds</b>			
Revenue Reserves		23,309,014	50,138,664
Government Grant		102,305,748	47,866,925
		<u>125,614,792</u>	<u>98,005,589</u>
<b>Total Accumulated Funds and liabilities</b>		<u>127,442,371</u>	<u>111,835,015</u>

The Financial Statements set out on pages 1 to 13 were signed on behalf of the Board of Directors by:



Ag. Executive Director

Date... 29/01/2015 .....



Chairman of the Board

Date... 29/01/2015 .....

**XI. STATEMENT OF CHANGES IN NET ASSETS**  
**For the year ended 30 June 2014**

	Government Grant Kshs	Accumulated surplus Kshs	Total Kshs
<b>Balance as at 30 JUNE 2012</b>	18,519,769	70,767,298	89,287,067
Depreciation	(6,652,844)	-	(6,652,844)
Surplus/(deficit) for the period	-	4,371,367	4,371,367
Retained Reserves	-	(25,000,000)	(25,000,000)
Development Funds	36,000,000	-	36,000,000
<b>Balance as at 30 JUNE 2013</b>	<b>47,866,925</b>	<b>50,138,665</b>	<b>98,005,590</b>
Surplus for the period	-	(26,829,650)	(26,829,650)
Depreciation	(5,436,177)	-	(5,436,177)
Retained Reserve	-	-	-
Development Funds	59,875,000	-	59,875,000
<b>Balance as at 30 JUNE 2014</b>	<b>102,305,748</b>	<b>23,309,015</b>	<b>125,614,763</b>

**XII. STATEMENT OF CASH FLOWS**

	Note	2014 Kshs	2013 Kshs
<b>Cash flows from operating activities</b>			
<b>Operating Activities</b>			
Reserve for the Year		(26,829,650)	4,371,367
Development Government Grant		59,875,000	36,000,000
<b>Adjustments for items not involving movement of cash</b>			
Add: Depreciation		15,377,102	12,335,271
Less: Retained Reserves		-	(25,000,000)
<b>Cash Flow from Operation activities before Increase or Decrease in Working Capital</b>		<b>48,422,452</b>	<b>27,706,638</b>
<b>Working Capital Changes</b>			
Decrease in Receivables		161,492	71,909
Increase (Decrease) in Inventories		730,243	(509,377)
Increase in Pre payments		(241,483)	(91,833)
Increase (Decrease) in Payables		(12,001,816)	4,935,588
		<b>(11,351,564)</b>	<b>4,406,287</b>
<b>Net cash flows from operating activities</b>		<b>37,070,888</b>	<b>32,112,925</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant, equipment and intangible assets		(16,452,881)	(20,432,439)
<b>Net cash flows used in investing activities</b>		<b>(16,452,881)</b>	<b>(20,432,439)</b>
<b>Net increase in cash and cash equivalents</b>		<b>20,618,007</b>	<b>11,680,486</b>
Cash and cash equivalents at 1 JULY 2013		59,652,615	47,972,129
Cash and cash equivalents at 30 JUNE 2014		80,270,622	59,652,615

**XIII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2014	2014	2014	2014	2014
	Kshs	Kshs	Kshs	Kshs	Kshs
<b>Revenue</b>					
Government grants and subsidies	172,051,200	-	172,051,200	172,051,200	-
Finance Income	200,000	-	200,000	187,854	(12,145)
Sale of tender	15,000	-	15,000	15,000	-
Other Incomes	6,785,000	-	6,785,000	4,452,000	(2,333,000)
Retained Reserves	20,000,000	7,000,000	27,000,000	27,000,000	-
<b>Total income</b>	<b>199,266,200</b>	<b>7,000,000</b>	<b>206,051,200</b>	<b>203,706,054</b>	<b>(2,345,145)</b>
<b>Expenses</b>					
Compensation of employees	123,451,200	(19,944,200)	103,507,000	102,726,465	780,535
Board Services	7,000,000	200,000	7,200,000	7,150,783	49,217
Goods and services	33,100,000	17,990,000	51,090,000	49,797,470	1,292,530
Rent paid	30,500,000	(1,700,000)	28,800,000	28,483,882	316,118
Depreciation	-	15,400,000	15,400,000	15,377,102	22,898
<b>Total expenditure</b>	<b>194,051,200</b>	<b>11,945,800</b>	<b>205,997,000</b>	<b>203,535,702</b>	<b>2,461,298</b>
<b>Surplus for the period</b>	<b>5,215,000</b>	<b>(5,160,800)</b>	<b>54,200</b>	<b>170,352</b>	

**XIV. NOTES TO THE FINANCIAL STATEMENTS****1. Statement of compliance and basis of preparation – IPSAS 1**

The entity'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 entity and all values are rounded to the nearest whole number. The accounting policies have been applied to 2013/2014 financial year presented.

The financial statements have been prepared on the basis of historical cost. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

**2. Summary of significant accounting policies****a) Revenue recognition****i) Revenue from non-exchange transactions – IPSAS 23****Fees, taxes and fines**

The entity recognizes revenues from fees, taxes and fines 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 entity and the fair value of the asset can be measured reliably.

**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 entity and can be measured reliably.

**ii) Revenue from exchange transactions – IPSAS 9*****Sale of goods***

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

***Interest income***

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

**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 entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity 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) 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 entity 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.

**d) Leases – IPSAS 13**

Finance leases are leases that transfer substantially the entire risks and benefits incidental to ownership of the leased item to the Entity. 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 Entity 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 so as 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 Entity 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 Entity. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

**e) 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 assessed as either finite or indefinite.

**f) 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 Entity.

**g) Nature and purpose of reserves**

The Entity creates and maintains reserves in terms of specific requirements. Entity to state the reserves maintained and appropriate policies adopted.

**h) Changes in accounting policies and estimates – IPSAS 3**

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

**i) Employee benefits – IPSAS 25**

**Retirement benefit plans**

The Entity provides retirement benefits for its employees. Defined contribution plans are post employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

**j) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.

**k) Comparative figures**

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

**l) 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, 2014.

**3. Transfers from other governments – gifts and services-in-kind**

	2014 Shs	2013 Shs
<b>Operational grant</b>		
Disbursements from the parent Ministry during the Financial Period.	172,051,200	172,951,199

**4. Finance income - external investments**

	2014 Shs	2013 Shs
Cash investments and fixed deposits	187,855	152,970

**5. Other income**

	2014 Shs	2013 Shs
Complaint Filing Fees	2,466,000	2,776,950
Destruction & Storage Fees	1,986,000	1,274,800
British High Commission Grants	-	1,736,700
Sale of Tender Documents	15,000	984,000
<b>Total other income</b>	<b>4,467,000</b>	<b>6,772,450</b>

**6. Employee Costs**

	2014 Shs	2013 Shs
Employee related costs - salaries and Allowances	72,577,768	78,855,040
Casual & Interns	501,100	427,500
Employee related costs - contributions to staff gratuity	1,662,848	2,307,650
Employee related costs - contributions to NSSF, pensions and medical aids	15,566,123	13,634,468
<b>Total Employee costs</b>	<b>90,307,839</b>	<b>95,224,658</b>

**7. Board of Directors Expenses**

	2014	2013
	Shs	Shs
Board Allowances	4,082,820	3,677,500
Board Domestic Travel and other Expenses	392,200	2,705,140
Board Committees, Conferences & Seminars	1,631,763	225,000
Chairman Honoraria & Tel. Allow	1,044,000	1,044,000
<b>Total Board of Directors Expenses</b>	<b>7,150,783</b>	<b>7,651,640</b>

**8. Depreciation and amortization expense**

	2014	2013
	Shs	Shs
Property, plant and equipment	14,663,604	11,621,773
Intangible assets	713,498	713,498
<b>Total depreciation and amortization</b>	<b>15,377,102</b>	<b>12,335,271</b>

**9. General expenses**

**The following are included in general expenses:**

	2014	2013
	Shs	Shs
Asset Tagging	205,000	-
Comm. Supplies & Services	3,188,523	2,290,017
Corporate Social Responsibility	162,000	-
Destruction & Storage	68,000	-
Domestic Travel & Daily Subsistence Allowance	7,488,648	5,022,715
Finance Costs	158,870	161,534
Foreign Travel & Daily Subsistence Allowance	4,929,978	2,753,255
Fuel , Oil & Lubricants	2,132,761	1,791,740
General Insurance Costs	1,507,664	760,454
Hospitalities & Services	1,144,990	1,672,551
Membership & Subscriptions Fees	706,273	295,377
Office & Gen. Supplies/Services	3,667,428	4,274,787
Parking Charges	1,211,268	2,907,500
Printing, Advertising & Services	4,656,470	7,423,349
Professional & Consultancy Services	6,119,354	9,474,142
Promotional Activities	6,008,225	2,363,986
Provision For Audit Fees	1,236,560	858,000
Research	691,260	-
Rent	28,483,882	30,317,841
Routine Maintenance - Others	946,043	696,580
Routine Maintenance - Vehicles	1,918,909	855,492
Security Charges	2,547,360	2,466,920
Specialized Materials/Supplies	-	198,070
Staff Uniforms & Gear	133,980	-
Training Expenses	7,315,757	4,405,744
Transport Cost – For Seized Goods	43,220	-

Utilities - Electricity	4,027,558	4,303,629
<b>Total general expenses</b>	<b>90,699,851</b>	<b>85,293,683</b>

**10. Cash and cash equivalents**

	2014	2013
	Shs	Shs
Petty Cash – Head Quarter	-	3,791
Petty Cash – Mombasa	-	2,291.00
ACA KCB Main Bank Account	54,958,252	28,512,425
ACA KCB Development Account	9,263,520	17,726,973
ACA KCB Revenue Account	10,559,071	8,105,210
ACA NIC Bank Limited – Short-term Deposit	5,489,779	5,301,925
<b>Total cash and cash equivalents</b>	<b>80,270,622</b>	<b>59,652,615</b>

**11. Receivables from non-exchange contracts**

	2014	2013
	Shs	Shs
<b>Prepayments</b>		
Fuel Reserve	124,089	-
Medical Insurance	2,361,128	1,972,563
Group Insurance – WIBA	65,037	143,661
General Insurance - Prepayment	425,051	323,230
Training Prepayment	-	294,370
Account Receivables – Staff Imprests	115,500	276,991
<b>Total current receivables</b>	<b>3,090,805</b>	<b>3,010,815</b>

**12. Inventories**

	2014	2013
	Shs	Shs
Consumable stores	1,343,955	2,074,199

13. Property, plant and equipment

	Motor Vehicles	Computers	Office Equipment	Furniture & Fittings	Leasehold Improvements	Total
Cost	Shs	Shs	Shs	Shs	Shs	Shs
At 1 July 2012	24,513,973	6,598,491	8,879,952	18,361,181	10,592,719	68,946,316
Additions	14,605,680	2,354,480	1,350,000	1,363,915	-	19,674,075
<b>At 30 June 2013</b>	<b>39,119,653</b>	<b>8,952,971</b>	<b>10,229,952</b>	<b>19,725,096</b>	<b>10,592,719</b>	<b>88,620,391</b>
Additions	9,554,353	329,314	1,266,523	541,500	4,761,191	16,452,881
<b>At 30 June 2014</b>	<b>48,674,006</b>	<b>9,282,285</b>	<b>11,496,475</b>	<b>20,266,596</b>	<b>15,353,910</b>	<b>105,073,272</b>
<b>Depreciation</b>						
At 1 July 2012	11,094,486	3,902,425	1,969,112	4,008,519	3,242,021	24,216,563
Depreciation	9,779,913	2,981,339	1,278,744	2,465,637	1,768,984	18,274,617
<b>At 30 June 2013</b>	<b>20,874,399</b>	<b>6,883,764</b>	<b>3,247,856</b>	<b>6,474,156</b>	<b>5,011,005</b>	<b>42,491,180</b>
Depreciation	12,168,501	1,396,796	1,437,056	2,533,325	2,564,103	20,099,781
<b>At 30 June 2014</b>	<b>33,042,900</b>	<b>8,280,560</b>	<b>4,684,912</b>	<b>9,007,481</b>	<b>7,575,108</b>	<b>62,590,961</b>
<b>Net book values</b>						
<b>At 30 June 2014</b>	<b>15,631,106</b>	<b>1,001,725</b>	<b>6,811,563</b>	<b>11,259,115</b>	<b>7,778,802</b>	<b>42,482,311</b>
<b>At 30 June 2013</b>	<b>18,245,254</b>	<b>2,069,206</b>	<b>6,982,096</b>	<b>13,250,940</b>	<b>5,581,714</b>	<b>46,129,210</b>

**14. Intangible assets - software**

Cost	Shs
At 1 July 2012	1,384,273
Additions	758,364
<b>At 30 June 2013</b>	<b>2,142,637</b>
Additions – internal development	-
<b>At 30 June 2014</b>	<b>2,142,637</b>
<b>Amortization and impairment</b>	
At 1 July 2012	(460,963)
Amortization	(713,498)
<b>At 30 June 2013</b>	<b>(1,174,461)</b>
Amortization	(713,498)
Impairment loss	-
<b>At 30 June 2014</b>	<b>(1,887,959)</b>
<b>Net book values</b>	
At 30 June 2014	254,678
At 30 June 2013	968,176

**15. Trade and other payables from non exchange transactions**

	2013/2014	2012/2013
	Shs	Shs
Audit Fees	995,280	754,000
Account Payable Liabilities	729,226	8,853,122
PAYE	72,000	-
<b>Total trade and other payables</b>	<b>1,796,506</b>	<b>9,607,122</b>

**16. Staff Gratuity**

	2013/2014	2012/2013
	Shs	Shs
Staff Gratuity b/d	4,222,304	3,023,725
Gratuity for the year	1,662,848	2,307,650
Payments	(5,854,049)	(1,109,071)
<b>Total Staff Gratuity</b>	<b>31,103</b>	<b>4,222,304</b>

**17. Events after the reporting period**

There are no material non-adjusting events after the reporting date.