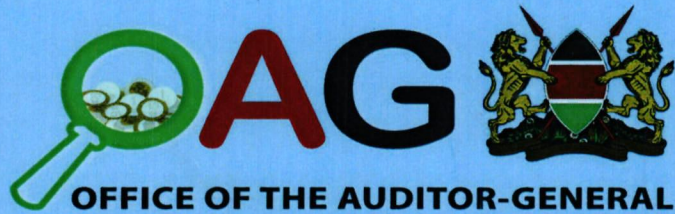


REPUBLIC OF KENYA



Enhancing Accountability



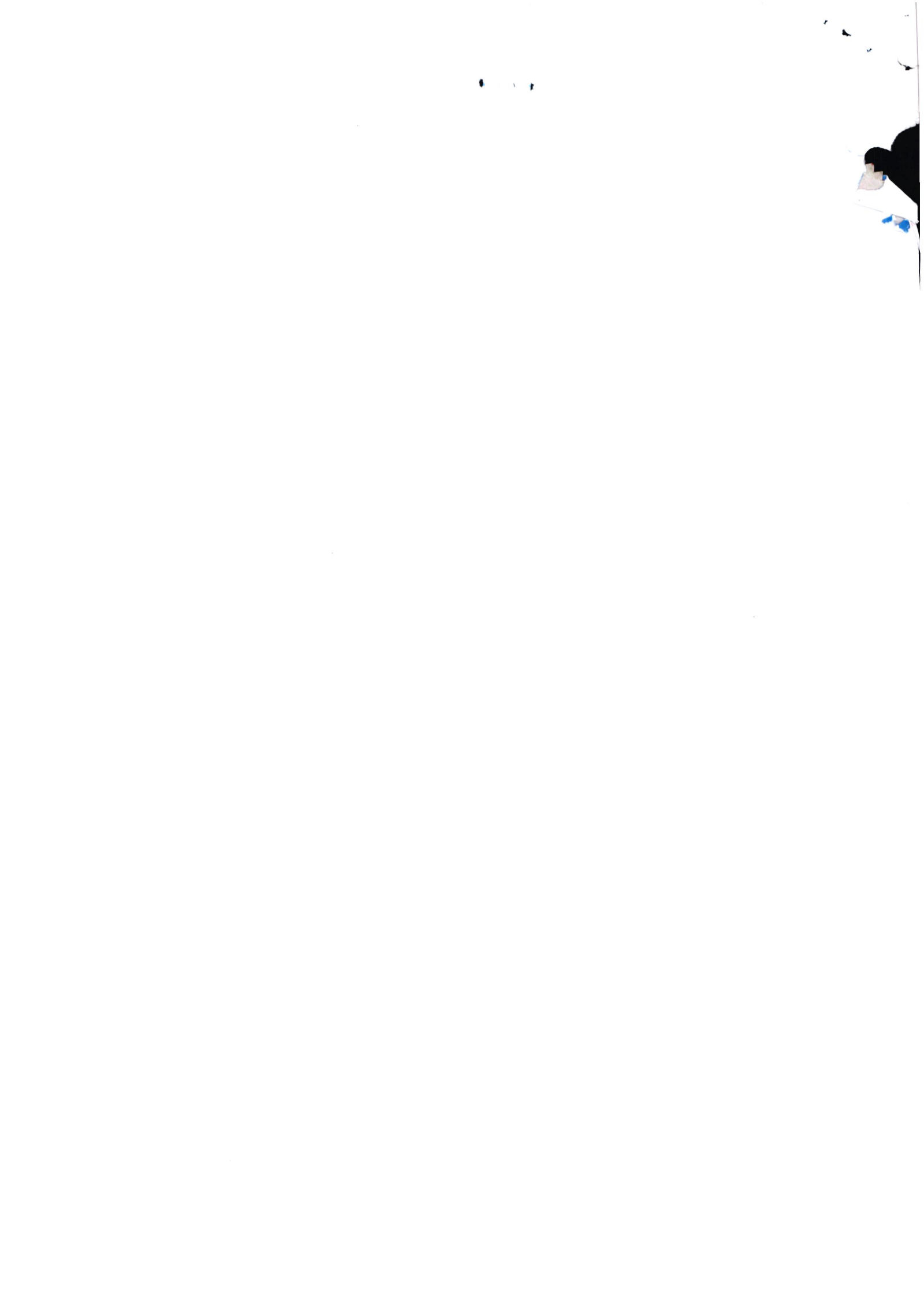
| | |
|---------------------|-------------|
| THE REPORT | |
| DATE: 17 OCT 2022 | |
| WEDNESDAY | |
| TABLED BY: | OF LOM |
| CLEAR AT THE TABLE: | Miniam Mudo |

THE AUDITOR-GENERAL

ON

**KENYA LEATHER DEVELOPMENT
COUNCIL**

**FOR THE YEAR ENDED
30 JUNE, 2021**





KENYA LEATHER DEVELOPMENT COUNCIL

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30TH JUNE, 2021

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

| TABLE OF CONTENT | PAGE |
|--|-------------|
| 1. LIST OF ABBREVIATIONS | i |
| 2. KEY COUNCIL INFORMATION AND MANAGEMENT | iv |
| 3. BOARD OF DIRECTORS OF THE COUNCIL | vii |
| 4. MANAGEMENT TEAM | xi |
| 5. CHAIRMAN'S STATEMENT | xv |
| 6. REPORT OF THE CHIEF EXECUTIVE OFFICER | xviii |
| 7. STATEMENT OF COUNCIL'S PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR FY 2020/21 | xx |
| 8. CORPORATE GOVERNANCE STATEMENT | xxiii |
| 9. MANAGEMENT DISCUSSIONS AND ANALYSIS | xxix |
| 10. ENVIRONMENTAL AND SUSTAINABILITY REPORTING | xxxv |
| 11. REPORT OF THE BOARD OF THE COUNCIL | xxxix |
| 12. STATEMENT OF THE DIRECTORS' RESPONSIBILITIES | xl |
| 13. REPORT OF THE INDEPENDENT AUDITOR FOR FINANCIAL STATEMENTS OF THE KENYA LEATHER DEVELOPMENT COUNCIL | xli |
| 14. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2021 | 1 |
| 15. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021 | 2 |
| 16. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2021 | 3 |
| 17. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021 | 4 |
| 18. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2021 | 5 |
| 19. NOTES TO THE FINANCIAL STATEMENTS | 7 |
| APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS | 34 |
| APPENDIX II: PROJECTS IMPLEMENTED BY THE COUNCIL | 36 |
| APPENDIX III: INTER-ENTITY TRANSFERS | 37 |

1. LIST OF ABBREVIATIONS

| | |
|--------|--|
| AGPO | Access to Government Procurement Opportunities |
| CEO | Chief Executive Officer |
| CETP | Common Effluent Treatment Plan |
| CMF | Common Manufacturing Facility |
| CPA | Certified Public Accountant |
| CS | Cabinet Secretary |
| DOB | Date of Birth |
| EPZA | Exporting Processing Zones Authority |
| ERP | Enterprise Resource Planning |
| FY | Financial Year |
| HR | Human Resources |
| ICPAK | Institute of Certified Public Accountants of Kenya |
| ICT | Information Communication Technology |
| IFRS | International Financial Reporting Standards |
| IPSAS | International Public-Sector Accounting Standards |
| ISC | Inspectorate of State Corporation |
| KAM | Kenya Association of Manufacturers |
| KIPPRA | Kenya Institute of Public Policy Research and Analysis |
| KLDA | Kenya Leather Development Authority |
| KLDC | Kenya Leather Development Council |
| LPO | Local Purchase Order |
| LSO | Local Service Order |
| MAC | Management Advisory Committee |
| MLD | Million Litre per Day |
| MoU | Memorandum of Understanding |
| MSMEs | Micro, Small & Medium Enterprises |
| NCCG | Nairobi City County Government |
| PFM | Public Finance Management |
| PIA | Principal Internal Auditor |
| PS | Principal Secretary |
| PSASB | Public Sector Accounting Standard Board |
| PSC | Public Service Commission |
| SCAC | State Corporations and Advisory Committee |
| SM | Square Meters |
| TBA | To be Advised |
| TOTs | Trainers of Trainees |
| TPCSI | Training & Production Centre for Shoes Industry |
| UoN | University of Nairobi |

2. KEY COUNCIL INFORMATION AND MANAGEMENT

(a) Background information

The Kenya Leather Development Council (KLDC) is a State Corporation established by the Government of Kenya under the Kenya Leather Development Council Order, 2011 (Legal Notice No. 114 of the Kenya Gazette supplement No. 113 of 9th September 2011, under the State Corporation Act (Cap 446), laws of Kenya. The Council was initiated as a specialized agency to drive the Government's agenda on the development of leather industry. To achieve this, the Council is expected to regulate and facilitate the growth of the industry. The principal mandate of the Council is to drive the transformation of the leather value chain in the Country from a raw material/semi-processed export driven sector to a finished leather product manufacturing industry. KLDC is therefore a key driver of the "Big Four" Agenda under the Manufacturing Pillar. The roadmap to this success is embedded on strategic objectives which specifically address the key challenges facing it. The strategic objectives are aligned to the Council's mandate.

(b) Principal Activities

The principal activity/function of the Council as mandated by Kenya Leather Development Council Order, 2011 (Legal Notice No. 114 of the Kenya Gazette supplement No. 113 of 9th September 2011, under the State Corporation Act (Cap 446), laws of Kenya are:

- i) To provide advisory services to the Cabinet Secretary on matters relating to processing of and trade in hides, skins, leather and leather goods for planning purpose;
- ii) To promote, direct, coordinate, regulate, and harmonize all activities in the leather sector;
- iii) To oversee licensing in the leather sector;
- iv) To undertake research and development activities in the leather industry;
- v) To Enforce compliance with set standards in collaboration with other relevant institutions in the industry.
- vi) To Mobilize technical and financial support for the leather sector.
- vii) To Collect, store, analyze, and disseminate data on leather.
- viii) To Perform any other function, as the Cabinet Secretary may consider necessary.

Vision

Dynamic Global Agency for promotion of excellence in development of leather value chain

Mission

To provide leadership and policy direction in regulation, production, processing and marketing in the leather industry so as to promote equitable development and poverty reduction

Core Values

Transparency and Accountability, Professionalism, Honesty and Integrity, Teamwork, Collaboration and Networking, Commitment to Meritocracy and Welfare of our Staff & Social Responsibility.

(c) Key Management

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

1. Board of the Council
2. Chief Executive Officer/Secretary
3. The Secretariat

(d) Fiduciary Management

The Key Management Personnel who held office during the financial year ended 30th June 2021 and who had direct fiduciary responsibility are:

| No. | Designation | Name |
|-----|---|----------------------------|
| 1. | Chief Executive Officer | Dr. Issack M. Noor, PhD |
| 2. | Director, Technical Services | Mr. Charles Ndungu |
| 3. | Director, Corporate Services | Mr. Mohammednoor A. Isacko |
| 4. | Corporation Secretary /Head of Legal | Ms Njeri Chege |
| 5. | Manager, Finance & Accounts | CPA Mohamed Khalif |
| 6. | Principal Supply Chain Management Officer | Mr. Erick Rithaa Kinoti |
| 7. | Principal Internal Auditor | CPA Albert Ariku |

(e) Fiduciary Oversight Arrangements

The Board of Directors are the governing body for the Council providing oversight functions. In discharging its duties, the Board delegates its role to various committees. Finance & Governance, Human Resource, Risk & Compliance, Technical & Strategy and Audit. The resolutions of the Board are implemented by the Management.

COUNCIL BANKER

Kenya Commercial Bank
P. O. Box 14959- 00800
NAIROBI, KENYA

REGISTERED OFFICE

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

INDEPENDENT AUDITORS

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

PRINCIPAL LEGAL ADVISOR

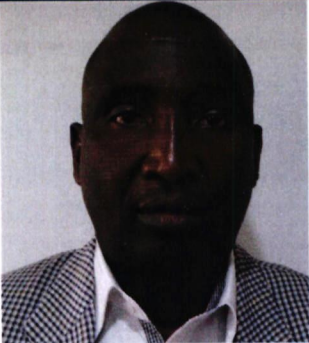


The Attorney General
State Law Office -Harambee Avenue
P.O. Box 40112 -00200
NAIROBI, KENYA.




COUNCIL CONTACT

Cell-Phone: 0704617705/0709386000
Email: info@leathercouncil.go.ke
<http://www.leathercouncil.go.ke>

3. BOARD OF DIRECTORS OF THE COUNCIL


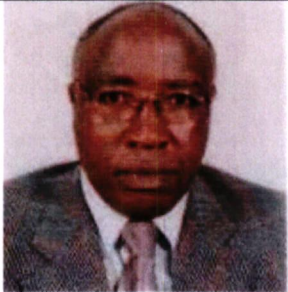

| No | Name | Key Professional/Academic Qualification |
|----|---|---|
| 1. |  <p>Mr Abdi Bare Duale Chairman</p> | <p>Mr Abdi is the Chairman of Kenya Leather Development Council. He is an experienced business executive with vast knowledge in starting up and running successful enterprises. Abdi is a trained entrepreneur with an MBA (International Trade) from Edith Cowan University, Australia. He has many business interests and is currently the Managing Director of Medina Chemicals Limited and the Executive Chairman of Nomad Palace Hotel Limited. Abdi previously served as a Board Member for Kenya Revenue Authority, Kenya Bureau of Standards and Nerix Pharma Limited. As the chairman of the council, he chairs all full board meetings.</p> |
| 2. |  <p>Anne R. Lengereded Director</p> | <p>Anne was born in 1969; she is a MCIPS (Member Chartered Institute of Purchasing & Supplies- Professional stage. She holds Masters on Public Policy & Analysis JKUAT and Bachelors of Commerce (finance option) Kenyatta University; she was a Board Member at Pastoralist Development Network, Tele Posta Sacco and various learning institutions. She got wide experience in Procurement matters. She currently chairs Finance & Governance committee and is also a member of Human Resource & Risk Committee at the council.</p> |
| 3. |  <p>Mr Johnson Maina Mwangi Rep CS, National Treasury</p> | <p>Mr. Johnson Maina Mwangi was born on 20th December, 1968. He is currently a Senior Deputy Director, Macro and Fiscal Affairs Department in the National Treasury. He has served as an Economist for 26 years in various Government Ministries including in the Office of the Vice President and Ministry of planning and National Development, Ministry of Environment and Natural Resources, Ministry of Education, Science and Technology, Ministry of Health and the National Treasury. He holds a Bachelor of Arts (BA) in Economics and Master of Arts (MA) in Economics degrees from the University of Nairobi. He is a member of both Finance & Governance and Audit Committees.</p> |



| No | Name | Key Professional/Academic Qualification |
|----|---|--|
| 4. |  <p>Mr. Joseph N. Mbogo Rep. PS State Department of Livestock</p> | <p>Mr. Mbogo holds a Master's of Science degree in Leather Technology (University of Northampton-UK, 2005), Bachelors of Science degree (University of Nairobi, 1990). He has served in government in various positions starting as a high school teacher with the TSC, lecturer at both Ahiti-Kabete and University of Nairobi, a researcher at Kenya Industrial Research and Development Institute (KIRDI). He is currently the Director of Leather Development, State Department of Livestock and alternate Director KLDC to the Principal Secretary, State Department of Livestock. He is a member of the both Finance & Governance and Technical & Strategy Committees.</p> |
| 5. |  <p>Mr Elias K. Busienei Director</p> | <p>Mr. Busienei was born in 1973; he holds MBA (Executive)-aviation option Moi University, has wide experience in Flight Operations in Kenya. He currently chairs Technical and Strategy Committee of the council and is also a member of the audit committee.</p> |
| 6. |  <p>Mr Raphael Letimalo Director</p> | <p>Mr. 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 District Officer 1988-2007. He is currently the chair of the Board's Audit Committee and also a member of Technical and Strategy committee.</p> |


| No | Name | Key Professional/Academic Qualification |
|----|--|--|
| 7. |  <p>Ms Amina M. Wario Director</p> | <p>Ms Amina is a community leader on women empowerment, mentoring youth in creating awareness in and after school program, advocating for community membership in education and health care. 2013-2017 Was a nominated member of County Assembly of Nairobi. 2008-2013 Was a nominated councilor Embakasi-Nairobi. 2003-2007- Was chairlady of Embakasi Sub-Branch (KANU). 1989-1997- KANU Chairlady Embakasi ward (Maendeleo ya Wanawake). 1986-1989 Village representative Kware/Mukuru Kwa Njenga ward. She is a member of Audit committee as well as Human Resource and Risk Compliance Committee.</p> |
| 8. |  <p>Ms Elizabeth Kamau Director</p> | <p>M/s Elizabeth is a fashion and interior Designer with many years and wide experience in Kenya and East Africa. She holds Diploma in fashion and interior Design. Elizabeth currently chairs Human Resource and Risk Compliance Committee at the council and is also a member of Audit Committee.</p> |
| 9. |  <p>Mr Stephen Karume Director</p> | <p>Mr. Karume joined KLDC Board on 20th Sep 2018. He has a Bachelor Degree in Arts (Majoring in Economics) from Moi University and holds an Executive Masters in Business Administration (Entrepreneurship). He worked as Head of Trade Development at East African Breweries Ltd from 2001 to 2014. 1993 -2001 he worked for Dawa Pharmaceuticals Ltd. 1991-1993 he worked for Car & General as a sales man covering Nairobi region. Karume is a member of both Human Resource & Risk Compliance and Technical & Strategy Committees.</p> |


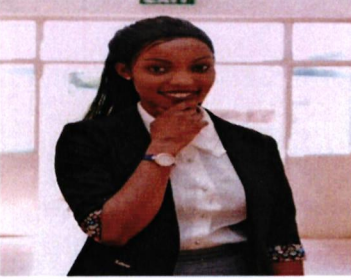
| No | Name | Key Professional/Academic Qualification |
|-----|---|--|
| 10. |  <p>Mr Henry Mutwiri Rep. CS National Treasury</p> | <p>Mr Mutwiri was born in 1971; he has 22 years' work experience in finance related office. He holds a Degree in BBA, MBA-Finance, and Post-Graduate-Diploma in Financial Management and professional Diploma in Public Procurement.</p> <p>He was CS National treasury Representative until 17th July, 2020. He was member of Finance & Governance and Audit Committees.</p> |
| 11. |  <p>Dr Issack M. Noor, PhD CEO/Secretary</p> | <p>Dr. Noor is 59 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.</p> |
| 12. |  <p>Ms Njeri Chege Corporation Secretary /Head of Legal</p> | <p>Ms. Chege holds a Bachelor of Laws (LL. B) (Hons) degree from the U.O.N (Parklands)2003, and a post graduate diploma from the Kenya School of Law. She is an Advocate of the High Court of Kenya, with over fifteen (15) years of experience in the legal field and a member of the Law Society of Kenya. She is a Certified Public Accountant of Kenya C.P.A (K) and Certified Public Secretary of Kenya CPS(K) and member of Institute of Certified Secretaries of Kenya – ICS (K).</p> <p>She is passionate about the rule of law and prudent management of public resources and sound public governance policies.</p> |

4. MANAGEMENT TEAM

| No | Name | Key Academic & Professional Qualification | Area of Responsibility |
|----|---|--|---|
| 1. |  Dr. Issack M. Noor, PhD | <p>Dr. Noor is 59 years old, he holds a PhD in Livestock 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).</p> <p>He has over 35 years of public service experience with veterinary department, teaching, research, and administration.</p> | Chief Executive Officer/ Secretary |
| 2. |  Mr Charles M. Ndungu | <p>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> | Director, Technical Service |
| 3. |  Mr Mohammednoor A. Isacko | <p>Isacko has a wealth of HR professional experience spanning over 14 years in various organisations, including County Public Service Board of Marsabit as Board Secretary/Chief Executive Officer, Kenya Meat Commission as Chief Human Resource & Administration Manager. Isacko has held various portfolio as Human Resources Officer in various organization.</p> <p>A Human Resource Professional with vast experience in management, Isacko holds Masters in Business Administration from the University of Nairobi and a Bachelor of Commerce (Human Resource Management) from the same university. He holds higher national diploma from Institute of Human Resource Management and Diploma in Public Administration from Institute of Galilee (Israel).</p> | Director, Corporate Service |

| No | Name | Key Academic & Professional Qualification | Area of Responsibility |
|----|--|--|--|
| 4. |  <p>Ms Njeri Chege</p> | <p>Ms. Chege holds a Bachelor of Laws (LL.B) (Hons) degree from the U.O.N (Parklands)2003, and a post graduate diploma from the Kenya School of Law. She is an Advocate of the High Court of Kenya, with over fifteen (15) years of experience in the legal field and a member of the Law Society of Kenya. She is a Certified Public Accountant of Kenya C.P.A (K) and Certified Public Secretary of Kenya CPS(K).</p> <p>She is passionate about the rule of law and prudent management of public resources and sound public governance policies.</p> | <p>Corporation Secretary /Head of Legal</p> |
| 5. |  <p>Mr Paul M. Ephantus</p> | <p>Paul is a former Employee of State Department of Livestock as an Acting Director Leather Development.</p> <p>BSc. (Hons.) Materials Technology (Leather) from the University of Northampton (UK) and MSc. Environmental Legislation and Management -ongoing</p> <p>He is a Visionary, Strategic and Transformative Leader and an expert in formulating Environmental and Leather Policies, Developing Leather Strategies and Enacting Environmental Legislations.</p> <p>He is the founder & chairman of Kenya Association of Leather Technologist and Scientists (KALTS), a professional body for Leather Development Professionals.</p> | <p>Manager, Capacity Building</p> |

| No | Name | Key Academic & Professional Qualification | Area of Responsibility |
|----|---|--|--|
| 6. |  Dr Ahmed A. Hassan, PhD | <p>Holds a BSc (Hons) from Northampton University U.K. Masters in Business Administration (MBA) Strategic Management option from Kenya Methodist University and Doctor of Philosophy in Business Administration (Strategic Management option from Jomo Kenyatta University of Agriculture Technology, Nairobi Kenya.</p> <p>Holds a thirty-five years' experience in the leather industry.</p> | Manager, Quality Assurance & Compliance |
| 7. |  Mr John Otieno Okumu | <p>John holds MSc in Environmental Planning & Management - Maseno University, BSc in Material Science (Leather) - University of Northampton, Certificate in Hides & Skins Improvement - AHITI Kabete, KCE certificate from Mawego Technical School. A leather professional with over 34 years of experience.</p> | Manager, Promotions & Marketing |
| 8. |  Mrs. Yvonne K. Nkoiboni | <p>Yvonne is a Human Resource practitioner with over 10 years of experience. She has vast experience in recruitment, training, discipline, employee relations, performance management and rewards management. She has a bachelor's degree in Human Resource Management and is a member of the Institute of Human Resource Management.</p> | Manager, Human Resources & Administration |
| 9. |  CPA Mohamed Khalif | <p>PhD Candidate (JKUAT), MBA (Finance) –MKU, BBM (Finance & Banking)–Moi University, CPA (K) and SMC- KSG. A registered member of ICPAK.</p> <p>Professional Accountant with over 10 years' experience in finance, Accounting, auditing and assurance in both Public and Private Sectors.</p> | Manager, Finance & Accounts |

| No | Name | Key Academic & Professional Qualification | Area of Responsibility |
|-----|---|--|---|
| 10. |  <p>Mr. Erick Rithaa Kinoti</p> | <p>Eric is the head of procurement and supply chain management function at the Council. He is seasoned professional in supply chain management and governance in both public and private sector.</p> <p>He is a finalist Master of business administration and a bachelor of commerce degree (procurement and supply chain Management) holder, with CPA part II certification. He is a member of the Kenya Institute of Supplies Management (KISM).</p> | <p>Principal Supply Chain Management Officer</p> |
| 11. |  <p>Ms. Peris Njeri Wainaina</p> | <p>Peris a visionary and committed team player with a strong professional background in Leather Technology with a Master's of Science (Msc) focused in leather and environment.</p> <p>Experienced researcher and skilled in lecturing, leadership, management and product development. Proven and capable leader with ability to prepare and implement business plans and mobilize the necessary resources for implementation both financial and human.</p> | <p>Principal Leather Development Officer/Centre Administrator TPCSI Centre</p> |

5. CHAIRMAN'S STATEMENT

It is an honour to present the financial statements and report for the financial year 2020/2021. The report is a reflection of the commitment of the Board and management in striving to achieve impactful interventions to grow the leather industry. The industry remains a priority sector for industrialization under the 'Big Four agenda and the Kenya Leather Development Council (KLDC) is central to the sector's development and promotion of the value chain.

The Board and the management have remained dedicated to ensuring the Council discharges its mandate through the realization of the strategic objectives set in the strategic plan FY 2017/2018-2021/2022. The Plan is expected to materialize in the FY 2021/2022 and the focus for the Council has therefore been to facilitate excellence in the leather industry; enhance leather sector infrastructure; promote leather processing & product manufacturing; and promote leather marketing. These objectives are designed to transform Kenya towards becoming a leather/leather products manufacturing hub.

The Council has continued to work in collaboration with critical partners locally, internationally and has also benefited from the support given by the Ministry of Agriculture, Livestock, Fisheries & Co-operatives, the National Treasury, other Government departments and agencies.

CORE MANDATE

During the year, the Council continued to discharge its mandate. However, the Covid-19 pandemic did affect operations significantly. The adherence to the Ministry of Health protocol to curb the spread of the disease led to the halting of critical activities, programs and projects which were also in some instances affected.

Nevertheless, the Council made important milestones. In line with the objective to enhance the leather sector infrastructure for example, the development of the Kenya Leather Industrial Park progressed well, with the construction of the Common Effluent Treatment Plant (CETP) now almost complete. The Council also commenced construction of the leather industrial warehouses which will be expected to provide a "plug and play" incentivised facility for investors. The enabling partners such as the Departments responsible for Roads, Power, Water and ICT have also begun preliminaries in the implementation of their respective components. The provision of these critical infrastructure and utilities will bolster the competitiveness of the Leather Park.

The Board was also able to finalize negotiations on the amendment of the initial Memorandum of Understanding (MoU) between KLDC and Export Processing Zones Authority (EPZA). The first document which was executed on 8th December, 2015 had several gaps which have been addressed in the First Amendment to the MoU signed

in 2020. This MoU now expressly provides for critical areas such as land, funding, revenue-sharing, zoning within the park, management amongst others. The consensus between the joint implementors, has facilitated the allocation of one hundred (100) acres of land by EPZA for use by KLDC exclusively. A master plan was developed by the Directorate of Planning for this portion of the land and thereafter it was resurveyed and approved by the Cabinet Secretary, Ministry of Lands.

The Council in achieving the objective of promotion of leather processing and product manufacturing has also made significant strides in the finalization of the Kariokor Common Manufacturing Facility (CMF) which is expected to bolster local footwear and leather goods competitiveness. The facility was handed over on the 14th of July, 2021 to KLDC by the Nairobi City County Government and is now expected to be operationalized within the first quarter of the next financial year. The Council intends thereafter to map the rolling out of the CMF model across the country in some of the leather manufacturing clusters such as Nakuru, Eldoret, Kisumu, and Malindi.

KLDC has continued to nurture the Training and Production Centre for Shoe Industry (TPCSI) in order to ensure that it achieves its strategic objective of supporting growth in the leather sector through appropriate skills development. In this financial year, there was a notable improvement in productivity attributable to the re-organization of the human resource and the standard operating procedures. The installation and operationalization of thirty-three machines in the facility which is almost complete is expected to provide improved services to the Micro & Small Enterprises (MSEs) in the leather sector. The training component was unfortunately affected by the outbreak of Covid-19 pandemic but it is hoped that there will be improvement in the next financial year.

During the year, the Kenya Leather Development Policy was finalized by the Council in consultation with the Kenya Institute of Public Policy Research and Analysis (KIPPRA). The Policy is intended to provide a dedicated roadmap for development of the sector, which has previously only been addressed in broad-based national policies that had implications for development of the sector. Lack of a comprehensive policy has partly contributed to its underperformance. The Policy is pending validation by stakeholders, which has been delayed by the ongoing pandemic, but is expected to be conducted in the next financial year.


GOOD GOVERNANCE & HUMAN RESOURCE CAPITAL

The Board of Directors has continued to discharge its oversight role despite the challenges relating to Covid-19. The Directors exemplified service to the nation and adapted well to the new ways of conducting business including conduct of virtual meetings and engagements. The oversight role of the Board was also discharged

through inspection of projects which are currently the key performance indicator for the Council.

The Board in cognizance of the importance of its human capital, continued to support strategies that would ensure a robust productive team. In the year, the Board approved critical policies and operational documents such as the Performance Management Policy, Human Resource & Procedures Manual; Budget and procurement plan. The Board oversaw the tracking of management's performance to ensure that the targets set in the performance contract for the year were achieved. The management executed the operations of the Council satisfactorily, despite the limitations arising from Covid-19 and the tight budget ceilings set by the National Treasury.

I am indeed hopeful that as the entire world adapts to the new environment of managing Covid-19, the Council will develop innovative ways to ensure that the sector continues to grow. By so doing, the sector's contribution to the Country's gross domestic product shall increase significantly through value addition in the leather value chain, job creation and improvement of livelihoods.


Mr Francis Munywoki
Chairman of the Board

6. REPORT OF THE CHIEF EXECUTIVE OFFICER

Kenya Leather Development Council (KLDC) is a State Corporation established by the Government of Kenya under the Kenya Leather Development Council Order, 2011 (Legal Notice No. 114 of 9th September, 2011), under the State Corporations Act (Cap.446), Laws of Kenya. The Council was instituted as a specialized agency to drive the Government's agenda on the development of leather industry. To achieve this, the Council is expected to regulate and facilitate the growth of the industry.

The principal mandate of the KLDC is to drive the transformation of the leather value chain in the Country from a raw material/semi-processed export-driven sector to a finished leather product manufacturing industry. KLDC is therefore a key driver of the "Big Four" Agenda under the Manufacturing pillar.

The Council has continued to facilitate a value driven and sustainable leather industry as stipulated in Kenya's Vision 2030 and the establishing legal instrument, with the primary focus being the quality of leather & leather products for both local and export markets.

In order to strengthen the Council's regulatory framework, drafts of Kenya Leather Development Policy and Kenya Leather Development Authority (KLDA) Bill have been developed. These instruments are expected to align the Council's operations with the new constitution and facilitate compliance in the industry through effective coordination. The draft policy has undergone public participation and is pending validation by the stakeholders before submission to the relevant Parliamentary Committee for further processing. The validation of the Policy is a critical pre-cursor to the promulgation of the KLDA Bill.

The Training & Production Centre for Shoe Industry (TPCSI), Thika, Kiambu County continues to be central to the Council's strategic objective to undertake skills development for the leather industry. In order to improve service delivery at the Centre and provide technical support for Micro & Small Enterprises (MSEs), the Council is in the process of finalizing the operationalization of modern machinery. In a bid to motivate the staff at the Centre, their terms of service have been reviewed and formalized. This has enhanced their morale and increased the Centre's operational efficiency. The performance at the Centre has also improved as a result of ongoing restructuring, particularly the provision of leadership by high cadre staff.

The Kariokor Common Manufacturing Facility in Nairobi County was officially handed over to the Council. It is expected to boost the growth of local MSMEs. The Council is in the process of finalizing the operationalization of modern equipment to enhance competitiveness of the MSEs products/outputs and expand employment opportunities.

During the financial year under review, there was remarkable progress in the construction of the Common Effluent Treatment Plant (CETP) at the Kenya Leather Park, Kenanie, Machakos County. As a result, the Council's absorption of exchequer grants for development has improved significantly. The CETP is expected to be completed in the next financial year and to be operationalized soon thereafter. This

has created an impetus to commence the construction of the “plug and play” facilities on the one hundred (100) acre parcel of land allocated to KLDC. The facilities comprise of four modern states of the art leather industrial warehouses measuring 5,000 square meters and 2500 square meters for tanneries and leather products manufacturing respectively.

The Council remains committed to discharging its mandate of leather sector development and promotion of the value chain through its national projects and programmes. It is keen on establishing a conducive environment, through a consolidated leather policy and legal framework. Further, participation in the fiscal strategies developed by the National treasury that have an impact throughout the value chain. These interventions are expected to spur development of the leather industry, stimulate and nurture investment, while protecting the interests of all leather sector players.

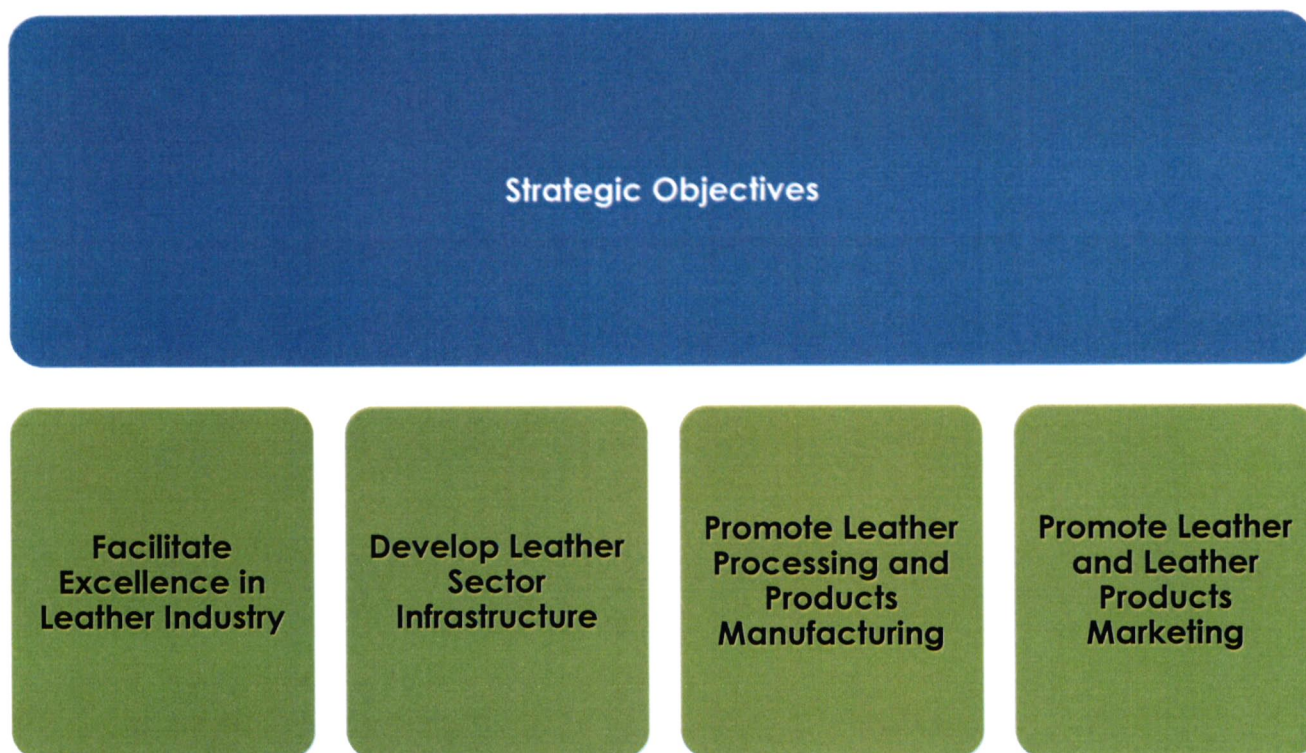
In the next financial year, the Council intends to complete the ongoing projects and initiate new ones that will expand the impact within the industry. It is our hope that in the financial year 2021/2022, the Council will review its five-year strategic plan which expires in the forthcoming year. Subject to the availability of funds, the Council may initiate the development of the KLDC headquarters; decentralize operations and also oversee the commencement of occupation of the Kenya Leather Industrial Park (Kenanie) by Investors.



Dr. Issack Mohamed Noor, PhD
Chief Executive Officer

7. STATEMENT OF COUNCIL'S PERFORMANCE AGAINST STRATEGIC OBJECTIVES FOR FY 2020/21

The Council's activities and projects are in pursuant of realizing the four strategic objectives of the current five-year strategic plan 2018 – 2022 and the national objective of transforming the leather industry into an internationally competitive regional leather and leather products manufacturing hub. Each strategic objective addresses particular requirements for continuous improvement of performance of the leather sector at raw material production, leather processing and product manufacturing. These strategic objectives are: -



In the drive towards the realization of these objectives, the Council is implementing various projects and programs that inform the planning of the annual activities. The planned activities for each year build on the achievements of the preceding year as well as lessons learned or any new dynamic that comes into play in the course of the year.

The current projects and programs include: -

- i. Development of the Kenya Leather Industrial Park in Kinanie Machakos County.
- ii. Establishment of a Common Manufacturing Facility (CMF) at Kariokor Nairobi County.
- iii. Upgrading of Training and Production Centre for Shoe Industry (TPCSI) Thika, Kiambu County.

- iv. Development of national leather policy.
- v. Hides and skins quality improvement program.

In the 2019/2020 issues of quality of hides and skins were identified as a major challenge in the development of the sector and the Council initiated the development and implementation a national program for quality improvement.

Apart from the interventions under the strategic objectives, other emerging dynamics affected the performance of the sector. During the year, the outbreak of Covid 19 pandemic had negative effects on the sector resulting in shutdown across the world that slowed the consumption of leather products. The international economic slowdown reduced the country's main exports of wet-blue/crust leather affecting the local raw hides and skins supply systems due to reduced prices.

The Council achieved its performance targets set for the FY 2020/21 period for its four strategic pillars as indicated in the table below:

Table 1.0: Statement of Council Performance against strategic objectives

| Strategic objective | Specific Objective | Key performance indicators | Activities | Achievements |
|--|---|---|--|---|
| Pillar 1: Facilitation of Excellence in Leather Industry | Development of a national leather policy | Final draft policy | Finalization of draft national leather policy | Draft finalized awaiting final validation |
| | Improvement of hides, skins and leather quality | Number of Counties Facilitated | Training and sensitization of 10 counties (5 high livestock & 5 high slaughter) identified | Enhanced skills to improve quality in 10 Counties |
| | | Number of flayers trained | Train 60 flayers | 35 flayers trained |
| | | Number of hides and skins producers/ traders sensitized | Sensitize 50 hides and skins traders | 30 producers sensitized |
| 25 TOTs sensitized on quality production | | | | |
| Pillar 2: Development of Leather | Provide a modern Common Effluent | % Completion | Construction of a CETP and other related works | 54% Complete |

| | | | | |
|---|---|--|--|--|
| Sector Infrastructu re | Treatment Plant (CETP) | | | |
| | Provision of plug and play industrial warehouses | % Completion | Construction of 4 industrial warehouses (2 of 2500SM & 2 of 5000SM) | 20% Complete |
| Pillar 3: Promote Leather Processing and Product Manufactu ring | Operationalize Kariokor Common Manufacturing facility | % Completion | Completion of Kariokor warehouse | 100% complete |
| | | Number of Machines delivered and installed | Delivery and Installation of 65 machines/ equipment | 65 machines/ equipment delivered awaiting installation |
| | Upgrade of Training and Production Centre for Shoe Industry (TPCSI) | Number of machines Installed | Installation of 33 machines | 33 machines installed |
| | | Number of operators trained | Training of 15 machine operators conducted | 23 operators trained |
| Pillar 4: Promotion of Leather and Leather Products Marketing | Enhance access to markets | Market survey report | Carryout market survey of leather products | One market survey done |
| | | Number of MSMEs promoted through the website | Promote 10 MSMEs product through KLDC website | Products of 8 MSEs promoted |
| | Enhance footwear and leather goods competitiveness | Number of MSMEs accessing TPCSI facility | Facilitate 25 MSMEs to access TPCSI common manufacturing facility | 27 MSMEs accessed |
| | | Number of MSMES trained on compliance to standards | Train 50 MSMEs manufacturing leather products on standards compliance. | 12 MSMEs trained |

8. CORPORATE GOVERNANCE STATEMENT

The principal mandate of the Kenya Leather Development Council (KLDC) is to undertake leather sector development and promotion of the leather value chain. It discharges its mandate in accordance with the stipulations in the Kenya Leather Development Council (Order) L.N. No. 114 of 2011 under the State Corporations Act (Cap) 446 of the Laws of Kenya. Its strategic objectives are geared towards driving the transformation of the leather value chain in the Country from a raw material/semi-processed export driven sector to a finished leather products manufacturing industry.

KLDC is a key driver of the “**Big Four**” Agenda under the manufacturing pillar. The roadmap to achieve success is embedded in the current Strategic Plan for FY 2017/18- FY 2021/22. The strategic objectives address the key challenges facing the leather sector and are aligned to the Council's mandate.

The KLDC Chief Executive Officer (the accounting officer) is accountable to the National Assembly in accordance to Section (68) of the Public Finance Management (PFM) Act of 2012, in ensuring that the public resources are used in a way that is lawful and authorised; effective and efficient; economical and transparent. This role is discharged vis-a-vis the principles of good governance and the oversight of the Board of Directors (Board) envisaged in the provisions of Section (15) of the State Corporations Act (Cap) 446 of the Laws of Kenya and KLDC's enabling statute. The section provides that the Board shall be responsible for the proper management of the affairs of a state corporation and shall be accountable for the moneys; the financial business and the management of the entity.

Corporate Governance Principles

In pursuit of the corporate objective, we have committed to the highest level of good governance. KLDC strives to foster a culture that upholds the Constitution of Kenya 2010, values and rewards exemplary performance within clear ethical standards, corporate integrity, upholding respect for all and safeguarding national interest.

The Board discharges its role and functions in compliance with the enabling law, the State Corporations Act and the requirements contained in Mwongozo (The code of Governance for State Corporations) and all other applicable laws, rules and regulations. Mwongozo identifies the roles and functions of the Board which should be exercised collectively and not individually. The roles and functions include determination of the organization's vision, mission, purpose and core values; to set and oversee the overall strategy and approve policies of the Council; approve the annual budget; monitor the organization's performance and ensure sustainability; hire the CEO and approve the appointment of senior management staff; and ensure effective communication with stakeholders.

Constitution of the Board of Directors

The Chairperson of KLDC is appointed by the President of the Republic of Kenya. The Principal Secretary of the Parent Ministry and National Treasury appoint one alternate each to the Board. The Cabinet Secretary (CS) of the Parent Ministry appoints seven (7) independent Board members and the CEO is appointed by the CS upon recommendation by the Board.

Size and composition of the Board

The Board of Directors during the reporting year consisted of a chairperson; six (6) independent members; and two alternates- one to the PS of the Parent Ministry and the other the CS National Treasury. The inspectorate of State Corporations (ISC) was also represented in the Board by Mr. Lawrence Okudo (deceased) and thereafter Mr. Isaac O. Odek.

The skills matrix for the Board consists of individuals who possess extensive experience in various disciplines, which are applicable in the overall governance of the Council and achieved the right balance of skills and experience necessary in decision making. The Board members were also from diverse counties which provided a regional representation of the "face of Kenya".

Table 1.1: Details of the Board members during the financial year:

| | Name | Designation | DOA | Date of expiry | Term | Qualification | County |
|-----|----------------------|------------------|------------|----------------|-----------------|---------------|-------------|
| 1. | Mr. Abdi Bare Duale | Chairperson | 30.5.2018 | 29.5.2021 | 1 st | Masters | Garissa |
| 2. | Ms. Elizabeth Kamau | Director | 21.10.2019 | 20.10.2022 | 2 nd | Diploma | Kiambu |
| 3. | Mr. Elias Busienei | Director | 6.6.2018 | 5.6.2021 | 1 st | Masters | Trans Nzoia |
| 4. | Mr. Raphael Letimalo | Director | 6.6.2018 | 5.6.2021 | 1 st | Bachelor's | Samburu |
| 5. | Ms. Amina Wario | Director | 20.9.2018 | 19.9.2021 | 1 st | N/A | Isiolo |
| 6. | Mr. Stephen Karume | Director | 20.9.2018 | 19.9.2021 | 1 st | Masters | Kirinyaga |
| 7. | Ms. Anne Lengerded | Director | 20.9.2018 | 19.9.2021 | 1 st | Bachelor's | Samburu |
| 8. | Mr. Joseph Mbogo | Alt. PS SDL | 6.7.2020 | TBA | N/A | Masters | Kirinyaga |
| 9. | Mr. Johnson Mwangi | Alt. CS Treasury | 17.7.2020 | TBA | N/A | Masters | Nyeri |
| 10. | Mr. Henry Mutwiri | Alt. PS Treasury | 24.11.2017 | 17.7.2020 | End | Masters | Meru |

| | | | | | | | |
|-----|--------------------|---|-----------|-----------|-----------------|-----------------|---------|
| 11. | Dr. Issack M. Noor | CEO | 1.8.2016 | 31.7.2021 | 1 st | Doctorate | Mandera |
| 12. | Ms. Njeri Chege | Corporation Secretary/ Head of Legal | 1.11.2019 | TBA | N/A | Masters-ongoing | Kiambu |

The Board conducted its business through four committees; Finance & Governance; Technical & Strategy; HR, Risk & Compliance; and Audit. A chairperson was appointed for each committee from the independent members and each director served in at least two (2) committees.

Induction and Evaluation

The Council undertook the induction of the new Board members, Mr. Joseph Mbogo and Mr. Johnson Mwangi who were appointed during the financial year. The Directors also underwent training for board audit committee masterclass which was themed "In Pursuit of Wholesome Growth, Effective Governance and Integrity" conducted by ICPAK.

The annual SCAC Board self-evaluation was conducted on the 23rd of July 2020, however due to the Covid-19 pandemic it was done virtually by the SCAC officials. The results were given at the full Board meeting held on 5th November, 2020. The Board scored highly as an entity and the individual scores were also graded highly as summarized below:

Table 1.2: SCAC Board Self- Evaluation Results for FY 2019/2020

| S/No. | Name | Score % |
|-------|---|---------|
| 1. | Mr. Abdi Bare Duale- Chairman | 99.01 |
| 2. | Ms. Elizabeth Kamau | 91.50 |
| 3. | Mr. Henry Mutwiri- Former Alternate to CS National Treasury | 96.68 |
| 4. | Ms. Anne Lengerded | 94.80 |
| 5. | Mr. Stephen Karume | 92.70 |
| 6. | Mr. Raphael Letimalo | 93.29 |
| 7. | Mr. Elias Busienei | 94.76 |
| 8. | Ms. Amina Wario | 85.71 |
| 9. | Dr. Issack M. Noor | 93.86 |
| 10. | Corporate Board Performance | 94.15 |

Board Meetings

The Board in compliance with the directives of the State Corporations and Advisory Committee (SCAC) held Committee meetings at least once in every quarter and a full Board meeting. Special meetings were occasionally convened to address urgent matters.

These regular meetings ensured that the Board was able to exercise its oversight role and continuous assessment of performance of the management and alignment with the strategic objectives. The committees of the Board considered the agenda in detail and made recommendations for adoption in the full Board meetings. The Directors received sufficient notice as prescribed in Mwongozo and board papers were provided in advance to enable them review and prepare for the meetings.

During the FY 2020/2021 in compliance with Ministry of Health Covid-19 management protocol some of the meetings were held virtually. It was therefore necessary to procure and equip the Board with the necessary Information Communication Technology (ICT) to do so. During meetings held physically all the preventative measures including social- distancing; wearing of a mask; regular washing of hands and sanitization; isolation of symptomatic members; and short meetings were adhered to.

It was also resolved at the full Board meeting held on 27th January, 2021 that an Ad-hoc Committee be established to review the performance of the Council's Directorate of Technical Services.

Table 1.3: Board meetings held in the FY 2020/2021

| MEETING | Planned No. of Meetings | Actual No. of meetings |
|------------------------------------|--------------------------------|-------------------------------|
| Full Board | 4 | 6 |
| Finance and Governance | 4 | 5 |
| Audit | 4 | 4 |
| Human Resource and Risk Compliance | 4 | 4 |
| Technical and Strategy | 4 | 4 |
| Adhoc Committee | 0 | 12 |

Composition of Board Committees

The Board has established four (4) standing committees that assist to discharge its functions. The committees' member during the year were as shown:

Table 1.4: Board Committees membership

| | Name of the Committee | Members |
|----|------------------------------------|---|
| 1. | Finance and Governance | 1.Ms. Anne R. Lengereded -Chairperson 2.Mr. Johnson Mwangi -Member 3.Mr. Henry Mutwiri -Member 4.Mr. Joseph Mbogo -Member 5.Mr. Elias Busienei -Member 6.Dr Issack M. Noor -CEO/Secretary 7.Ms. Angela N. Chege -Corp Secretary |
| 2. | Audit | 1.Mr. Raphael Letimalo -Chairperson 2.Mr. Elias Busienei -Member 3.Mr. Johnson Mwangi -Member 4.Mr. Henry Mutwiri -Member 5.Ms. Elizabeth Kamau -Member 6.Ms. Amina Wario -Member 7.Mr. Albert Ariku -PIA/Secretary |
| 3. | Human Resource and Risk Compliance | 1.Mr. Elizabeth Kamau -Chairperson 2.Ms. Amina Wario -Member 3.Ms. Anne Lengereded -Member 4.Mr. Stephen Karume -Member 5.Dr Issack M. Noor -CEO/Secretary 6.Ms. Angela N. Chege -Corp Secretary |
| 4. | Technical and Strategy | 1.Mr. Elias Busienei -Chairperson 2.Mr. Joseph Mbogo -Member 3.Mr. Raphael Letimalo -Member 4.Mr. Stephen Karume -Member 5.Dr Issack M. Noor -CEO/Secretary 6.Ms. Angela N. Chege -Corp Secretary |

Financial Management

During the FY 2020/2021, the Board amongst other recommendations by its others committees considered, amended and approved the Annual Budget and the Procurement & Assets Disposal plan for the year. On the recommendation of the Finance & Governance Committee, the Board also considered, deliberated, gave directions, amendments and approved the quarterly financial statements that were submitted to National Treasury.

The Board acknowledges the need for strategic partnerships and encourages the participation of the private sector in our financial matrix. The pressing needs for more financing and the clear need for transparency makes engagement with and reporting to the government and other stakeholders critical. The increasing requirement for prudent financial management has heightened the level of interest in the Council's approach to risk management and assurance.

The Board governs the Council consistent with the stated business strategy indicated in the Council's values of equity, team work, meritocracy, accountability and probity all contributing to the commitment to transparency and high-quality governance system.

The Council incurred a total expenditure of **Kshs. 14.8 million** in facilitating the Board to attend meetings which includes a monthly honorarium of **Kshs 87,000** (Gross) for the chairman.

Table 1.5: The Board gross expenditure

| No. | Name | Position | Honoraria | Sitting Allow. | DSA | Millage | Training | Medical Insurance | Lunches | Other Exp. | Total |
|--------------|---------------------|------------------------|--------------|----------------|----------------|----------------|--------------|-------------------|--------------|--------------|-----------------|
| | | Kshs | '000' | '000' | '000' | '000' | '000' | '000' | '000' | '000' | '000' |
| 1 | Mr A bdi Bare Duale | Chairman | 957 | 400 | 36 | - | - | 54 | 30 | - | 1,476.7 |
| 2 | Mrs Elizabeth Kamau | Director | - | 500 | 163.8 | 20 | 60.00 | 54 | 36 | - | 833.5 |
| 3 | Mr Raphael Letimalo | Director | - | 780 | 1,092 | 300 | 120.00 | 54 | 48 | - | 2,393.7 |
| 4 | Mrs Amina Wario | Director | - | 440 | 655.2 | 240 | 60.00 | 54 | 36 | - | 1,484.9 |
| 5 | Mrs Anne Lengerded | Director | - | 740 | 1,110 | 340 | 120.00 | 54 | 54 | - | 2,417.9 |
| 6 | Mr Elias Busienei | Director | - | 780 | 1,074 | 340 | 120.00 | 54 | 40 | - | 2,407.5 |
| 7 | Mr Stephen Karume | Director | - | 540 | 782.6 | 260 | 120.00 | 54 | 30 | - | 1,786.3 |
| 8 | Mr Henry Mutwiri | Former CS Treasury Rep | - | 140 | - | - | - | 54 | 6 | - | 199.7 |
| 9 | Mr Joseph Mbogo | Rep, PS SDL | - | 740 | 273 | 7,807 | 120.00 | 54 | 42 | - | 1,236.5 |
| 10 | Mr Isaac Odec | Rep. of Inspectorate | - | 200 | - | - | - | 54 | 14 | - | 267.7 |
| 11 | Mr Lawrence Okudo | Rep. of Inspectorate | - | 120 | - | - | - | 53.7 | 10 | - | 183.7 |
| 12 | Mr Johnson Mwangi | Rep, CS Treasury | - | 600 | 345.8 | - | 120 | 53.7 | 32 | - | 1,151.5 |
| | Invitees | Secretariat | - | 304 | 839.22 | - | 120 | | 62 | 345 | 1,670.1 |
| Total | | | 957.0 | 6,284.0 | 6,371.6 | 1,507.8 | 960.0 | 644.4 | 440.0 | 344.9 | 17,509.7 |

9. MANAGEMENT DISCUSSIONS AND ANALYSIS

This annual report captures the overall performance of the Council based on its key interventions and performance indicators in line with the performance contract. The report highlights the operational and financial performances, challenges in relation to performance management and major risks carried out during the year.

A. The Council's operational and financial performance

The Council continues to deliver on its key mandate of undertaking leather sector development and promotion of the leather value chain. The operations of the Council are based on the strategic plan 2017-2022 and the performance contract. Presented below are the discussion and analysis of Council performance for the period under review:

i) Financial Performance

The overall financial performance of the Council was less than optimal compared to previous financial year. There was significant increase in expenditure due to increase in operationalization of the Council as a result of placement of the key personnel. The Comparative analysis of revenue and expenditure in the last two years are as presented below:

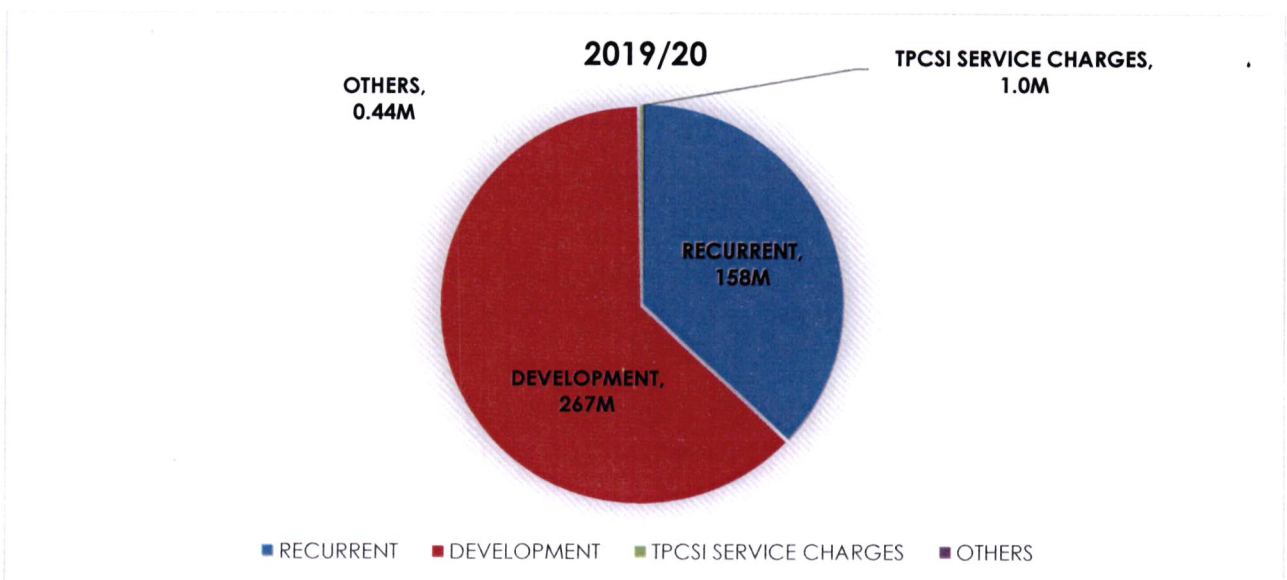


Figure 1.0: A graphical presentation showing income trends over the period 2019/20

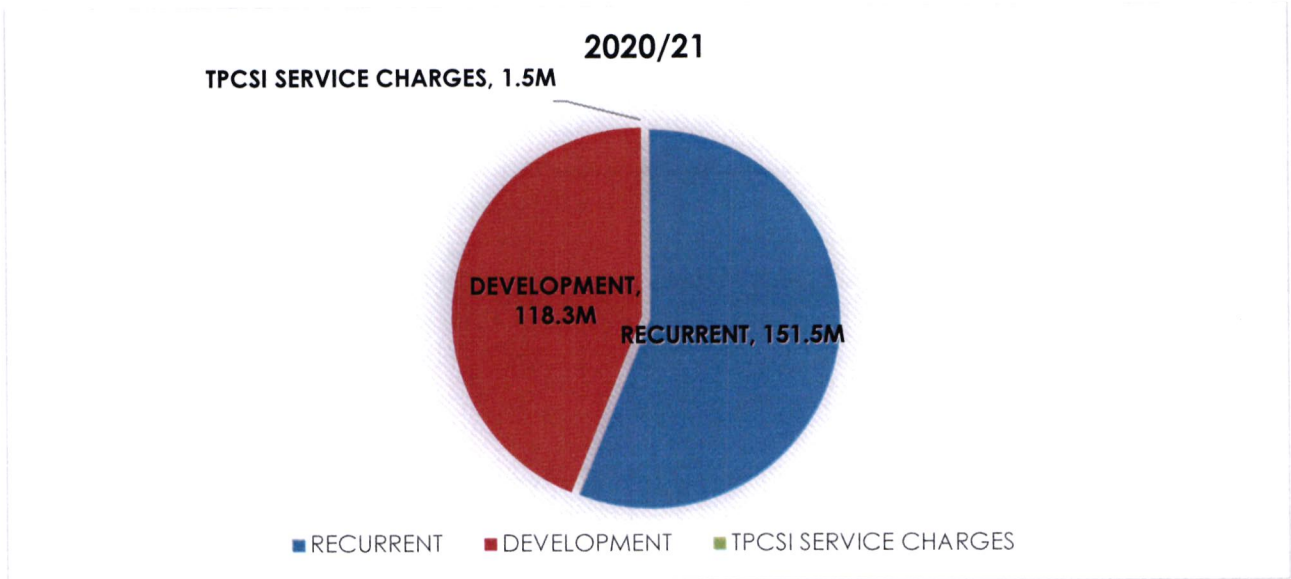


Figure 1.1: A graphical presentation showing income trends over the period 2020/2021

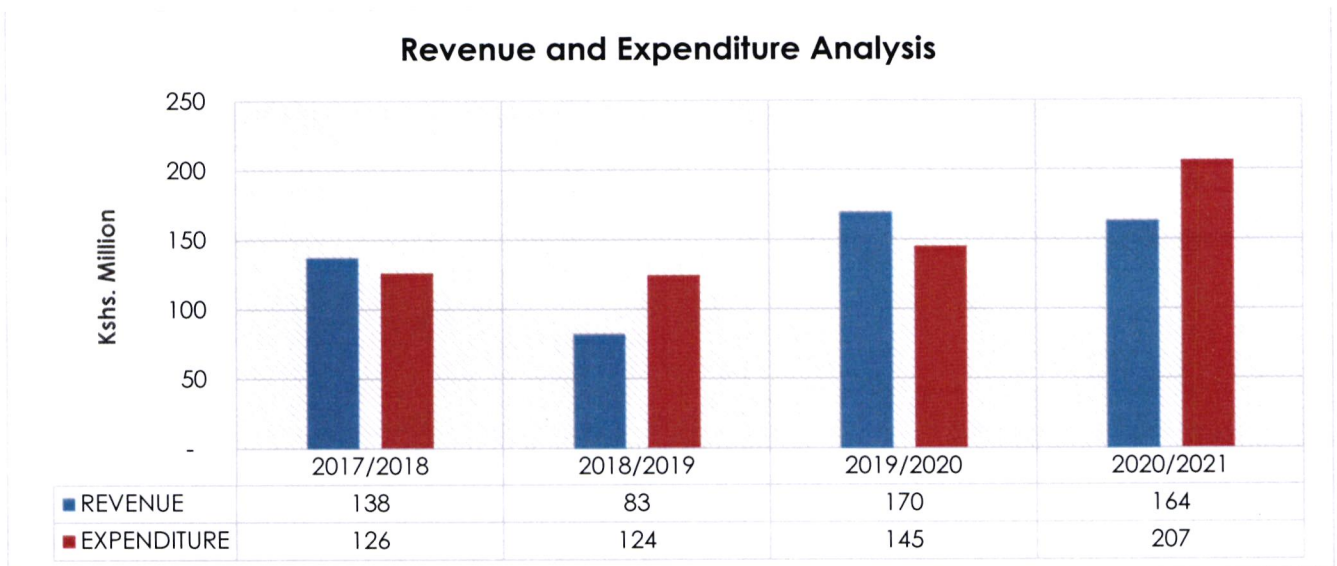


Figure 1.2: A graphical presentation showing revenue and expenditure trends over the period 2017/18 to 2020/21

During the period under review, a revenue of **Kshs.163.9 million** was received and raised against an expenditure of **Kshs. 207.1 million** resulting in an operational deficit of Kshs. 43.1 million.

ii) Operational Performance

The overall weighted aggregate performance score for Council in FY 2020/21 was 60% which is in the range of good. The summary of achievement is as presented in the figure 3 below:

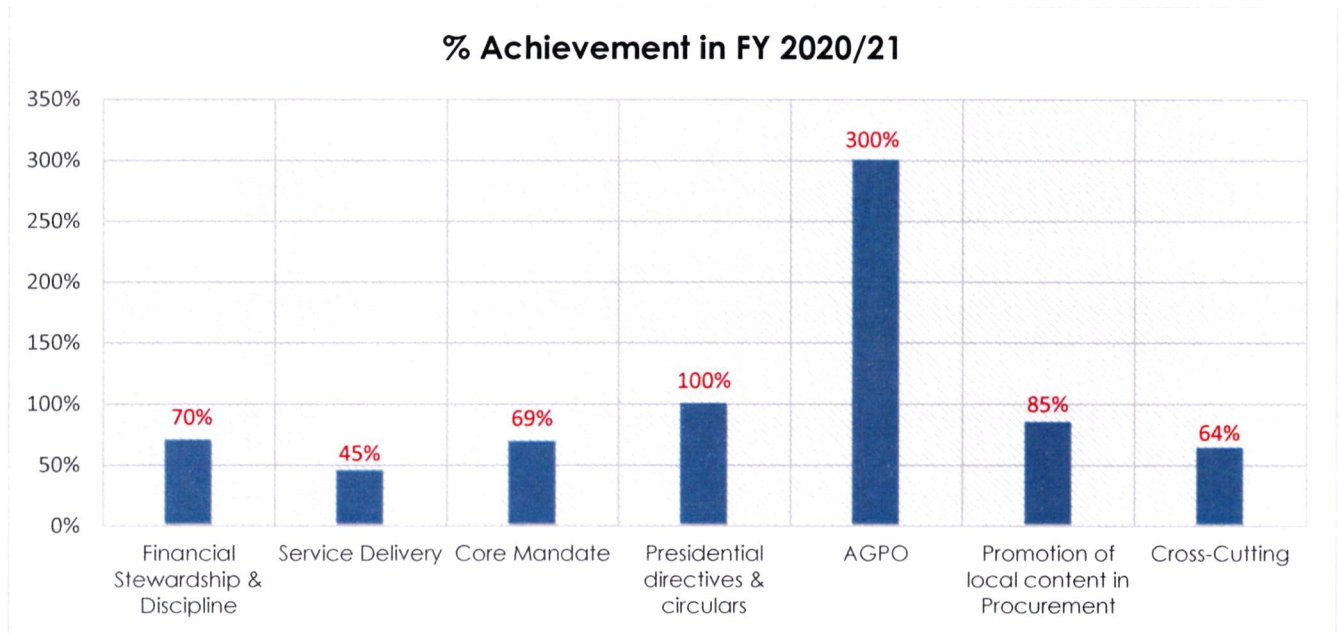


Figure 1.3: A graphical presentation of operational performance for FY 2020/21

It is important to note that there was an increase in operational performance in the year under review as compared to prior year of 50%. This can be attributed to the placement of initial critical staff for service delivery. The performance could have been even more if it were not the disruption caused by the emergence of Covid-19 which led to scaling down of activities to curb the spread of the pandemic. This has resulted in delay in commencement of planned activities. This is due to the measures taken by governments on conduct of businesses resulting in minimal movement of people and goods, affecting delivery services at the Council headquarters and TPCSI, Thika.

B. Council's compliance with statutory requirements

During the year under review, the Council complied with all its statutory obligations including compliance to public procurement regulations, remittance of P.A.Y.E, NHIF, NSSF, NITA and HELB within the stipulated deadlines. 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. The Council does not foresee any potential for contingent liabilities arising from non-compliance with statutory obligations.

C. Key projects and investment decisions the Council is planning/implementing

The Council plans to continue implementing its projects as per the Strategic Plan 2017-2022. This financial year, the Council is undertaking the following projects:

i) Kenya Leather Park

The Ministry of Industry, Trade and Enterprise Development and the Ministry of Agriculture, Livestock, Fisheries & Co-operatives through the Kenya Leather Development Council (KLDC) and Export Processing Zones Authority (EPZA), is developing Kenya's first Leather Park at Kinanie, Machakos County, to boost local production of leather and leather products.

The Park is situated 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 ongoing works are at different levels of completion as shown below: -

- ✚ Fencing of the 500-acre Leather Industrial Park complete.
- ✚ Construction of Common Effluent Treatment Plant (10.5MLD, 2.5MLD and reticulation)-ongoing and 54% complete.
- ✚ Construction of industrial warehouses for tanneries and leather goods manufacture- ongoing and 20% complete.

The overall works is at 48% complete. Meanwhile, other government Enablers (Roads, Power, Water, ICT and Security) have been engaged to fast-track their contribution towards realization of the park.

ii) Kariokor Common Manufacturing Facility

The Kariokor Common Manufacturing facility houses over 200 stalls with over 6000 entrepreneurs/employees. It is a major producers of leather products (footwear and leather goods). To improve both the quantity and quality of the leather products, the Council in collaboration with the Nairobi County Government is upgrading the cluster through provision of both production technology and skills development.

The MOU between the Council and Nairobi City County Government have been signed. The Management Advisory Committee (MAC) for smooth implementation of the project has been put in place. The three stakeholders (i.e the Council, the County Government and the beneficiaries) have each appointed three (3) Members to the Committee. The facility has been handed over to the Council and installation of the machinery ongoing.

iii) 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 and common manufacturing facility. To achieve the objectives, the Centre is being equipped with both 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.

iv) Replication of Common Manufacturing Model in the Counties

KLDC is mapping other manufacturing clusters with the intention of replicating the Common Manufacturing model in the Counties. Some of the Counties identified for mapping include Nakuru, Malindi, Eldoret, Kisumu, Meru and Mombasa.

D. Major risks facing the Council and mitigation measures

- i) **Financial risk** – insufficient funding is hampering delivery of the set targets. To mitigate this, the Council will implement Resource Mobilization Strategy through appeals to National Treasury and generate more income internally.
- ii) **Legal/Compliance Risk** – The existing regulatory and policy framework. lacks sufficient enforcement backing (KLDC is on a legal notice). To mitigate this, the Council has developed the Kenya Leather Development Policy and a draft KLDA bill which are currently at different stages of completion.
- iii) **Governance Risk** – The term of chairman and two independent directors of the Board ended during the year. Three other independent directors' terms are to end in the first quarter of FY 2021/22. This shall expose the Council to governance risk if re-appointment or replacement is not done within stipulated time. To mitigate this, the Council has notified the appointing authority.
- iv) **Information Security Risk** – The current manual system is prone to errors, inadvertent loss of data and cyber-attack that would adversely affect our brand identity and reputation. To mitigate this, The Council is implementing Enterprise Resources Plan (ERP) to automate the processes and secure data.
- v) **Covid-19 Risk** – the pandemic has greatly impacted on the activities of the Council. It has reduced accessibility and available of Council facilities and services and there is likely exposure of Council staff to Covid-19. To mitigate this, the Council scaled down its activities and followed measures taken by governments on conduct of businesses to curb exposure and spread of the pandemic.
- vi) **Reputational Risk** – the Council brand identity is critical and failure to protect this would result in deterioration of our reputation and potential loss of businesses. To mitigate this, the Council continues to reinforce its value, policies and processes with its stakeholders, business partners and employees. The Council shall take robust action where necessary, to protect its trademarks, brand and reputation.

The Council shall also be committed to development of communication strategy and stakeholder engagement programmes.

E. Material arrears in statutory/financial obligations

During the period under review, the Council has no any material arrears in statutory deductions or any historical pending bill.

F. The Council's financial probity and serious governance issues

The Audit Committee of the Board and the Auditor General regularly review the Council's internal control systems to ensure accuracy of financial reports, efficiency and effectiveness of operations and compliance to rules and regulations. In the FY 2020-2021, the Council strictly adhered to the code of ethics especially being honest in all financial matters including those relating to collections and its funding. The oversight bodies have not reported any financial improbity or any governance issues.

10. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

The Council exists to transform lives through the mandate of driving the transformation of the leather value chain in the Country from a raw material/semi-processed export driven sector to a finished leather product manufacturing industry. The strategic objectives guide the Council to deliver on its mandate. Below are outline of the Council's policies and activities that promote sustainability:

a) Sustainability strategy and profile

The Council is a state corporation established under the Kenya Leather Development Council Order, 2011 (Legal Notice No. 114 of 9th September, 2011) with its functions spelt out to drive the government's agenda on the development of leather industry. The Council espouses the principles relating to public finance, bill of rights, national values as well as principles of good governance, to the extent that they apply to Public Financial Management (PFM). KLDC plays a significant role in promoting and advancing accountability, development, service delivery and equity through its activities and policy recommendations. The Council was established to provide an objective and independent framework for regulation and facilitation of industry growth. The Council has managed to sustain its operations using the annual Exchequer allocations. Further, it supplements the GoK funding with its Internally generated income for services at TPCSI, Thika and donor support from time to time besides prioritizing expenditure on need basis and in line with its core mandate.

All over the world, overexploitation of natural resources required to achieve economic growth and development has had negative impacts on the environment while also causing these resources to become scarcer and costlier. Commitment to develop three quarters of Kenya's semi-arid land area to support beef ranching leads to increased livestock products. Value addition of these products impacts positively on economic and community social status. In Kenya, the meat processing plants are on the increase to support the meat value chain. The Council supports the development of hides, skins and leather value chain within the country.

b) Environmental Performance

Environmental performance at the Council is guided by the Environmental Management and Coordination Act, which informed the establishment of National Environmental Management Authority whose mandate is to support Institutions on environmental matters. The Council as a State Corporation complies with this Act and supports NEMA in meeting its core mandate. This is seen in the way the Council

disposes waste as well as discourage the use of plastic bottles in its offices and working leather facilities.

KLDC supports and advocates for an enabling environment that supports industrialization in Kenya. Competitive and sustainable local manufacturing calls for adequate, reliable and affordable factors of production. These are anchored on its sustainable policies to ensure that it meets the needs of the current generation without jeopardizing the lives of future generations. The council's interventions in support to the private sector by developing infrastructures specifically Common Effluent Treatment Plant at the Kenya Leather Industrial Park is aimed to improve environmental performance in terms of efficiency in resource utilization, recycling and reduction of pollution, waste & emissions.

c) Employee welfare

The Council has a Human Resource Policy and Procedures Manual guiding recruitment and selection, terms and conditions of employment and retention strategies. The manual provides for affirmative action e.g age, gender, regional balances, ethnicity and persons living with disabilities. The Council promotes gender and disability mainstreaming, and handles staff grievances in line with the requirement of the manual. The Council also adheres to Article 234 (1) (g,h,i), (2) (b), of the Constitution, Section 5 (3 a and b) of the Employment Act 2007 and Section 36 (c) PSC Act 2017 guiding the hiring process.

The Council has a Performance Management Policy in place which details the appraisal, rewards and sanctions system. The Council also carries out a Training Needs Assessment every year and recommends staff for competency development. The Council is in compliance with Occupational Safety and Health Act of 2007, OSHA. In addition, the Council has a Group Personal Accident for all employees.

d) Market place practices

Market place practices are types of platforms that promotes and enables transactions between multiple parties, such as a customer and a third-party seller. Market places generally do not fulfil the products or services purchased. Since buyers crave for leather goods, most traders sell non-leather goods disguised as leather hence the coining of words like 'real leather' and 'pure leather'. The Council in its website connects buyers to leather MSMEs. The Council's website promotes genuine leather footwear and other leather products. While market places generally charge fees for enabling the transaction, KLDC is offering its

website to support footwear and leather goods manufacturers to hasten movement of the raw material consumption along the value chain. The following are the efforts the Council has put in place to promote market place practices:

i. Responsible competition practice

Kenya Leather Development Council procurement function has an established system of competitive and responsible business practices anchored on the Kenyan Constitution 2010, the Public Procurement and Asset Disposal Act 2015 and the Public Procurement and Asset Disposal Regulations 2020. The Council maintains a corrupt free, apolitical and competitive procurement system. Towards this end, the Council:

- Advertises for procurement opportunities through the print media (MyGov) and further publishes the available procurement opportunities in the Governments' public procurement information portal; **tenders.go.ke**, its website; **www.kldc.go.ke** and noticeboards within the institution. Open tendering is the preferred method of major procurement opportunities in the Council.
- The Council enforces the requirement on preference and reservation schemes for the critical sectors of the society by offering at least 30% of procurement opportunities to the Youth, Women, Persons Living with Disabilities (PWDs) and marginalized suppliers through an open and competitive process.
- The Enforcement of Local Content (Buy Kenya Build Kenya) purchases ensures that at least 40% of all procurement opportunities is allocated to local suppliers. This promotes competition for local goods and services and thus the growth of the local industry.
- Prequalification and registration of suppliers is done through open advertisement where all potential suppliers are given an opportunity to participate. The Council ensures that the qualified suppliers are registered in the various categories of suppliers. The list gives exclusive preference to the Youth, Women, PWDs and the marginalized groups for specific procurements to ensure inclusivity and equity. The prequalification list is published on the Council's website for openness and public information.
- To ensure that the pricing for goods, works and services are within the market trends, the Council conducts market surveys and further seeks professional advice from experts depending on the procurement needs.

ii. Responsible Supply Chain and Supplier Relations

The Council maintains a responsible supply chain and supplier relations through various interventions. These include:

- The Council makes prompt payment to its suppliers once the goods, services and works have been certified. There are no pending invoices from previous contracts.
- The Council at all times offers contracts and LPO(s)/LSO(s) to its suppliers to signify contractual obligation between the two parties. The Council has at no time breached any of its contractual obligations with its suppliers.
- The Council ensures that there is a cordial relationship with its suppliers through an open customer service line during working hours and a procurement email where suppliers engage the Council on procurement issues.

iii. Responsible marketing and advertisement

To improve our marketing strategy, the Council consistently abides by certain ethical principles such as:

- Genuine MSMEs – The Council vets and profiles MSMEs whose products are promoted in its website.
- Genuine products – Leather products uploaded in the website are verified and only promoted if they are genuine leather products.

iv. Product stewardship

KLDC upholds ethical standards, employs competitive marketing and also promotes the interests of consumers under the principle of economic efficiency. Before products are uploaded on the website, the quality is verified and certified to ensure the consumers get value for their money.

11. 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, 2021, which shows the state of the Council's affairs.

i) Principal activities

The principal mandate of the Council is to drive the transformation of the leather value chain in the Country from a raw material/semi-processed export driven sector to a finished leather product manufacturing industry. KLDC is therefore a key driver of the "Big Four" Agenda under the Manufacturing Pillar. The roadmap to this success is embedded on strategic objectives which specifically address the key challenges facing it. The strategic objectives are aligned to the Council's mandate. 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.

ii) Results

The results of the Council for the year ended June 30, 2021 are set out on page 1

iii) The Board of Directors

The Appointment of the Board is in accordance to Section 4 of The Kenya Leather Development Council Order, 2011. The members of the Board of Council who served during the year are shown from page vi to vii.

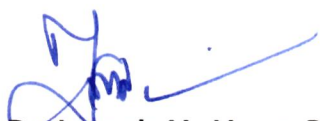
iv) Surplus Remission

The Council did not make any surplus during the FY 2020/21 and hence no remittance to the Consolidated Fund.

v) 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 and Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Council Governing Board of Directors



Dr. Issack M. Noor, PhD
Chief Executive Officer

12. STATEMENT OF THE DIRECTORS' 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 Council at the end of the financial year and the operating results of the Council for the year ended 30th June, 2021.

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 Directors are of the opinion that the Council's financial statements give a true and fair view of the state of its transactions during the financial year ended June 30, 2021, and of the financial position as at that date. The Directors further confirm 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 Directors 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 Council's financial statements were approved by the Board on **16th September 2021** and signed on its behalf by:



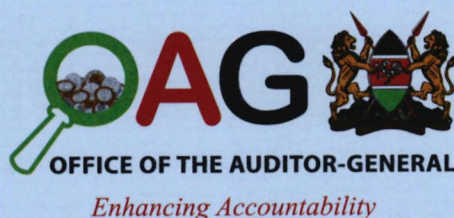
Dr. Issack M. Noor, PhD
Chief Executive Officer



Mr Francis Munywoki
Chairman of the Board

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA LEATHER DEVELOPMENT COUNCIL FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the Kenya Leather Development Council (KLDC) set out on pages 1 to 35, which comprise the statement of financial position as at 30 June, 2021, and the statement of financial performance, statement of

changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Kenya Leather Development Council as at 30 June, 2021, 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

1.1 Cash Flow Statement

The statement of cash flow reflects a negative balance of Kshs.72,590,169 under cash generated from operating activities. However, operating activities balances for expenditure on employee costs and use of goods and services differ with those reflected in the statement of financial performance under the two accounts, as indicated in the following table:

| Components | Note | Cash Flow Statement Amount (Kshs.) | Statement of Financial Performance Amount (Kshs.) | Variance (Kshs.) |
|-----------------------|-------------|---|--|-------------------------|
| Employee Costs | 23 | 86,836,339 | 89,714,881 | (2,878,542) |
| Goods and Services | 24 | 70,494,047 | 76,471,458 | (5,977,411) |
| Total Payments | | 157,330,386 | 166,186,339 | (8,855,953) |

In addition, contrary to the financial reporting guidelines issued by the Public Sector Accounting Standards Board, the deficit balance totalling Kshs.42,450,748 reflected in the statement of financial performance was not reconciled to the net cash flows from operating activities deficit balance totalling Kshs.72,590,168 reflected in the statement of cash flow.

In view of these discrepancies, the statement of cash flow may not be fairly stated.

2. Property, Plant and Equipment

2.1 Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment net book value balance totalling Kshs.958,876,995, as further disclosed in Note 19 to the financial statements. The following anomalies were noted in relation to the balance:

The property, plant and equipment balance includes additions to work-in-progress balance totalling Kshs.565,592,877 which, however, differs with the ledger balance for

the account totalling Kshs.685,071,002. The variance of Kshs.119,478,125 between the balances reflected in the two sets of records was not explained.

As a result, the accuracy and completeness of the property, plant and equipment balance totalling Kshs.958,876,995 could not be confirmed.

2.2 Training and Production Centre for Shoe Industry Assets

The property, plant and equipment further includes land valued at Kshs.44,000,000 and other assorted equipment taken over when the Training and Production Centre for the Shoe Industry (TPCSI) was acquired by the Council from Kenya Industrial Research and Development Institute (KIRDI). However, the handing over report did not disclose the values of the items of equipment, some of which were bought at inception of the Centre in 1994, or in earlier years, and were operational, and others that were obsolete and dysfunctional.

In addition, the handing over report indicated that TPCSI campus was located on a 0.1096 hectare (0.271 acre) plot of land in Thika Town, as per Trustee Deed made on 25 February, 1994 and certificate of title issued on 25 April, 1996. However, the title deed had not been transferred to the Council as at 30 June, 2021.

In view of these anomalies, the accuracy and completeness of the property, plant and equipment balance totalling Kshs.958,876,995 and ownership by the Council of the land on which the TPCSI is located could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Leather Development Council Management in accordance with ISSAI 130 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. There were no key audit matters to report in the year under review.

Other Matter

Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects actual expenditure totalling Kshs.875,359,998 against a final expenditure budget of Kshs.1,502,264,677 resulting to under-expenditure of Kshs.626,904,679 or 42% of the budget. The significant under-absorption of funds constrained implementation of planned activities and may have impacted negatively on delivery of goods and services to the public.

Further, the property, plant and equipment balance includes additions to furniture, fittings and equipment totalling Kshs.1,468,824 incurred against a budgetary provision of Kshs.500,000. Authority for the over-expenditure totalling Kshs.968,828 was not provided for audit and as a result, the validity of the expenditure could not be confirmed.

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 matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources 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

Delayed Construction of Effluent Treatment Plant

As reported in the previous year, in February, 2017, KLDC, in a joint venture with the Export Processing Zone Authority (EPZA) entered into a contract with a local contractor to build a modern common effluent treatment plant at Kenya Leather Park - Kenanie, Machakos County at a contract sum of Kshs.2,265,324,226. Records provided for audit indicated that a feasibility study on the plant had beforehand been procured by the EPZA and carried out in April, 2016.

However, audit review of procurement and management of the project contract denoted the following anomalies:

- (i) Records provided for audit indicated that, work commenced on 15 March, 2017 and was due for completion on 18 September, 2018 after 540 days but the date was revised on two occasions and eventually set for 28 June, 2021. By March, 2021, cumulative expenditure on the project amounted to Kshs.629,827,310 equivalent to 27.8% of the contract price. Comparison of the work plan and targets revealed that the works were at 48% level of completion.
- (ii) In June, 2017, Management made an advance payment totalling Kshs.385,105,119 to the contractor and thereafter paid Kshs.90,000,000 in 2018 for Works Certificate No.2 and Kshs.40,000,000 for Works Certificate No.3 in 2019. Although Clause 13.2.2 of the contract indicated that the value of the performance security was to be amortized in proportion to the value of the work executed by and paid to the contractor until full recovery, the Council paid the contractor Kshs.25,718,920 in 2019/2020 financial year instead of recovering the amount from the advance payment as prescribed in Clause 13.2.2 of the contract.
- (iii) Both KLDC and EPZA claim 50% stake in the project. However, the advance payment totalling Kshs.385,105,119 made by KLDC surpassed the 50% value of the venture costed at Kshs.226,532,435. The Council's final stake in the project has not been clarified.
- (iv) After construction work commenced, approximately 60% of the project site measuring 500 acres was flooded by rain waters. As a result, the Department of Public Works recommended that the plant be built on the unflooded portion of the land. Consequently, the master plan was revised to accommodate two treatment plants and re-location and a re-design of effluent flow from the leather park to the treatment plant. However, the agreement between the joint-venture partners and the contractor

on the revised contract price following the agreed adjustments in the original works had not been concluded at the time of the audit. In the absence of complete records on the revised works, it was not possible to confirm whether there was change in the value of the contract and how much the completed project would cost.

In view of the continuing delay in completion of the project, the services that it was expected to provide to the shoe industry have not been realized. Further, failure by the Council to recover the expenditure totalling Kshs.25,718,920 from the contractor may result in loss of public funds.

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, 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 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether 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 the Board of Directors

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 sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Council or cease operations.

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

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.

The Board of Directors is responsible for overseeing the Council's financial reporting process, reviewing the effectiveness of how Management 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 applicable basis of accounting, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Council to cease to 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 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 communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

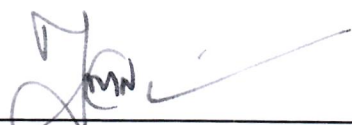
02 September, 2022

14. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2021

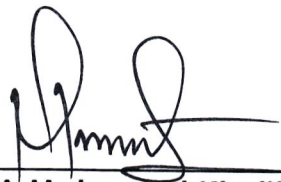
| Revenue | Notes | 2020-2021 Kshs | 2019-2020 Kshs |
|---|-------|---------------------|--------------------|
| Revenue from non-exchange transactions | | | |
| G.o.K Grant -Recurrent | 6(a) | 151,530,000 | 158,200,000 |
| G.o.K Grant -Development | 6(c) | 10,877,848 | 10,669,836 |
| Total | | 162,407,848 | 168,869,836 |
| Revenue from exchange transactions | | | |
| Sundry Income: Services fee at TPCSI | 7 | 1,546,550 | 1,476,660 |
| Total Revenue | | 163,954,398 | 170,346,496 |
| Expenses | | | |
| Goods and Services | 8 | 76,471,458 | 52,067,514 |
| Employee Costs | 9 | 89,714,881 | 45,451,404 |
| Board Expenses | 10 | 17,509,718 | 13,036,500 |
| Depreciation and Amortization | 11 | 17,264,973 | 28,821,378 |
| Repairs and Maintenance | 12 | 2,387,517 | 1,859,124 |
| Finance Cost | 13 | 38,378 | 56,349 |
| Operating Expenses Relating to Core Mandate | 14 | 3,018,220 | 3,848,335 |
| Total Expenses | | 206,405,146 | 145,140,604 |
| Surplus/(Deficit) before Tax | | (42,450,748) | 25,205,892 |
| Taxation | | - | - |
| Surplus/(Deficit) for the Period | | (42,450,748) | 25,205,892 |

The notes set out on pages 6 to 30 form an integral part of these financial statement.

The financial statements set out on page 1 to 5 were signed on behalf of the Board of Directors by:



Dr. Issack M. Noor, PhD
Chief Executive Officer



CPA Mohamed Khalif
Manager, Finance & Accounts
ICPAK No.13129

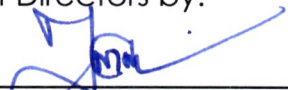


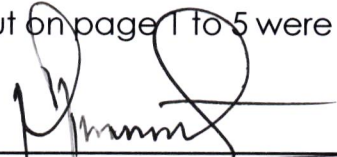
Mr Francis Munywoki
Chairman

15. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

| ASSET | | | |
|---|----|----------------------|----------------------|
| Current Assets | | | |
| Cash and Cash Equivalents | 15 | 684,899,486 | 1,257,949,812 |
| Receivables from exchange transactions | 16 | 628,205 | 5,989,684 |
| Receivables from non-exchange transactions | 17 | 548,138,817 | 385,105,119 |
| Inventories | 18 | 6,818,388 | 6,531,423 |
| Total Current Assets | | 1,240,484,896 | 1,655,576,038 |
| Non-Current Assets | | | |
| Property, Plant and Equipment | 19 | 958,876,995 | 408,767,695 |
| Intangible Assets | 20 | 312,637 | 513,751 |
| Total Non-Current Assets | | 959,189,633 | 409,281,446 |
| Total Assets | | 2,199,674,529 | 2,064,857,483 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Trade and Other Payables from exchange transactions | 21 | 1,392,000 | 1,002,958 |
| Refundable Deposit from customers | 22 | 95,938,152 | 26,478,787 |
| Total | | 97,330,152 | 27,481,745 |
| Non-Current Liabilities | | | |
| Total Liabilities | | 97,330,152 | 27,481,745 |
| Net Assets | | 2,102,344,377 | 2,037,375,738 |
| RESERVES | | | |
| Capital Reserve | | 1,879,490,664 | 1,772,071,278 |
| Revenue Reserve | | 173,971,897 | 216,422,644 |
| Revaluation Reserve | | 48,881,816 | 48,881,816 |
| Total Reserves | | 2,102,344,377 | 2,037,375,738 |

The financial statements set out on page 1 to 5 were signed on behalf of the Board of Directors by:


Dr. Issack M. Noor, PhD
Chief Executive Officer


CPA Mohamed Khalif
Manager, Finance & Accounts
ICPAK No.13129


Mr Francis Munywoki
Chairman

16. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2021

| | Notes | Revenue Reserve Restated | Capital Reserve Restated | Revaluation Reserve | Total |
|---|-------|-----------------------------|-----------------------------|---------------------|----------------------|
| As at 30 June 2019 | | 184,636,365 | 1,515,543,025 | 48,881,816 | 1,749,061,206 |
| Surplus/(deficit) for the period | | 25,205,892 | - | - | 25,205,892 |
| Transfers to Revaluation reserves | | - | - | - | - |
| Capital grants received during the year | | - | 256,528,253 | - | 256,528,253 |
| Prior years adjustments | | 6,580,387 | - | - | 6,580,387 |
| As at 30 June 2020 | | 216,422,644 | 1,772,071,278 | 48,881,816 | 2,037,375,738 |
| Surplus/(deficit) for the period | | (42,450,748) | - | - | (42,450,748) |
| Transfers to Revaluation reserves | | - | - | - | - |
| Transfer of depreciation on revaluation | | - | - | - | - |
| Capital grants received during the year | | - | 107,419,386 | - | 107,419,386 |
| As at 30 June 2021 | | 173,971,897 | 1,879,490,664 | 48,881,816 | 2,102,344,377 |

Note:

a) Revenue Reserve

This represents the net worth of the Council for the period ended 30th June, 2021 and forms the retained earnings.

b) Capital reserve

This represents the net worth of the Council for the period ended 30th June, 2021 and forms the Capital Reserve.

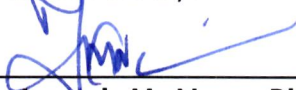
17. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

| Cash Flows from operating Activities | | 2020-2021 | 2019-2020 |
|---|-----------|----------------------|----------------------|
| Receipt | | Kshs | Kshs |
| Government Grants | 6(d) | 106,147,500 | 158,200,000 |
| Sundry Income: Services fee at TPCSI | 7 | 1,546,550 | 1,476,660 |
| Total Receipts | | 107,694,050 | 159,676,660 |
| Board Expenses | 10 | 17,509,718 | 13,036,500 |
| Repairs and maintenance | 12 | 2,387,517 | 1,859,124 |
| Finance Cost | 13 | 38,378 | 56,349 |
| Operating Expenses Relating to Core Mandate | 14 | 3,018,220 | 3,848,335 |
| Employee costs | 23 | 86,836,339 | 44,239,812 |
| Goods and Services | 24 | 70,494,047 | 64,896,981 |
| Total Payments | | 180,284,220 | 127,937,101 |
| Net Cash Flows from Operating Activities | 25 | (72,590,170) | 31,739,559 |
| Cash Flows from Investing Activities | | | |
| Purchase of Property, Plant, Equipment | 26 | (618,757,391) | (79,737,672) |
| Purchase of Intangible Assets | 20 | - | (685,000) |
| Net Cash Flows Used in Investing Activities | | (618,757,391) | (80,422,672) |
| Cash flows from financing activities | | | |
| Capital Grants | 6(b) | 118,297,234 | 267,198,089 |
| Net cash flows used in financing activities | | 118,297,234 | 267,198,089 |
| Net Increase/(Decrease) in Cash and Cash Equivalents | | (573,050,326) | 218,514,976 |
| Cash and Cash Equivalent at 1 July 2020 | | 1,257,949,812 | 1,039,434,836 |
| Cash and Cash Equivalent as at 30 June 2021 | | 684,899,486 | 1,257,949,812 |

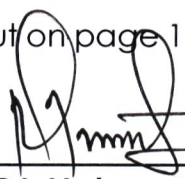
Note:

The Cash flow statement is prepared on the actual receipts and payments, hence excludes any accrued amount.

The financial statements set out on page 1 to 5 were signed on behalf of the Board of Directors by:



Dr. Issack M. Noor, PhD
Chief Executive Officer



CPA Mohamed Khalif
Manager, Finance & Accounts
ICPAK No.13129



Mr Francis Munywoki
Chairman

18. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR 30 JUNE 2021

| | Original budget | Adjustments | Final budget | Actual on comparable basis | Performance difference | Notes to material variances |
|---|--------------------|----------------------|----------------------|----------------------------|------------------------|-----------------------------|
| | 2020-2021 | 2020-2021 | 2020-2021 | 2020-2021 | 2020-2021 | |
| Revenue | Kshs | Kshs | Kshs | Kshs | Kshs | |
| Recurrent Capitation | 141,530,000 | 10,000,000 | 151,530,000 | 151,530,000 | - | (a) |
| Development Capitation | 236,595,667 | 1,113,119,010 | 1,349,714,677 | 1,349,714,677 | - | (b) |
| Other Income | 1,020,000 | - | 1,020,000 | 1,546,550 | 526,550 | (c) |
| Total income | 379,145,667 | 1,123,119,010 | 1,502,264,677 | 1,502,791,227 | 526,550 | |
| Expenditure | | | | | | |
| Employee Costs | 100,722,585 | 10,000,000 | 110,722,585 | 89,714,881 | 21,007,704 | (d) |
| Board Expenses | 9,954,000 | 8,300,000 | 18,254,000 | 17,509,718 | 744,282 | |
| Use of Goods & Services | 48,917,082 | 46,370,926 | 95,288,008 | 76,471,458 | 18,816,550 | (e) |
| Finance Cost | 50,000 | 10,000 | 60,000 | 38,378 | 21,622 | |
| Operating Expenses Relating to Core Mandate | 350,000 | 4,900,000 | 5,250,000 | 3,018,220 | 2,231,780 | (f) |
| Repairs and Maintenance | 2,280,000 | 500,000 | 2,780,000 | 2,387,517 | 392,483 | |
| Kariokor Cluster Project | 6,980,000 | (4,300,000) | 2,680,000 | - | 2,680,000 | (g) |
| Revitalization of TPCSI | 9,892,000 | - | 9,892,000 | 1,148,824 | 8,743,176 | (h) |
| Development of Kenya Leather Park | 200,000,000 | 1,057,338,084 | 1,257,338,084 | 685,071,002 | 572,267,082 | (i) |
| Total Expenditure | 379,145,667 | 1,123,119,010 | 1,502,264,677 | 875,359,998 | 626,904,679 | |
| Surplus/(Deficit) for the period | - | - | - | 627,431,229 | (626,378,129) | |

Explanation of material variance

- a) Recurrent Capitation** – The adjustment is as a result of supplementary I budget estimate.
- b) Development Capitation** – the actual amount allocated was slashed by 50% of Budget cut in supplementary I Budget Estimate. The adjustment is as result of deduction of Kshs. 118,297,834 due to budget cut and addition cash balances brought forward of Kshs. 1,231,417,443 from previous years for the ongoing project works.
- c) Other Income**-was above the budget as the Council realised more income hence favourable variance.
- d) Employee Costs**- The variance is due to delay in recruitment process and unpaid gratuity.
- e) Use of goods and services** – The variance is favourable due to carry over of certain activities to next financial year as a result of Covid-19 pandemic.
- f) Operating expenses relating to core mandate**- The variance is favourable due to carry over of certain activities to next financial year as a result of Covid-19 pandemic.

- g) Kariokor Cluster Project-** The variance is favourable due to delay in handing over of the facility by Nairobi County Government.
- h) Revitalization of TPCSI-** The variance is favourable due to delay in renovation of the centre as a result of BQs not ready on time.
- i) Kenya Leather Park-** The Variance is because of unrepresented works certificate by project manager for works done. The difference in the figure of Kshs. 119,478,125 of actual amount in statement of Budget comparison and as reported PPE is a result of advance payment for the projects which are not certified Works.

19. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

KLDC is established by and derives its authority and accountability from State Corporations Act (CAP 446, 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 mandate is to drive the transformation of the leather value chain in the Country from a raw material/semi-processed export driven sector to a finished leather product manufacturing industry.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The Council's financial statements have been prepared based on historical cost, unless stated otherwise. The preparation of financial statements in conformity with International Public-Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. The areas involving a higher degree of judgement or complexity or where assumptions and estimates are significant to the financial statements, are disclosed under note 5 of these financial statements. 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 cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis in accordance with IPSAS and PFM Act.

3. ADOPTION OF NEW AND REVISED STANDARDS

i. New and amendments standards and interpretations in issue effective in the year ended 30 June 2021

| Standard | Effective date and impact |
|---------------------------------------|--|
| Other Improve ments to IPSAS | <p>Applicable: 1st January 2021:</p> <p>a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks.</p> <p>b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment. Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved.</p> <p>c) IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets. Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets.</p> <p>d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs). Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard.</p> <p>The amendment does not have impact on the Council</p> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

ii. New and amendments standards and interpretations in issue but not yet effective in the year ended 30 June 2021

| Standard | Effective date and impact |
|---|---|
| <p>IPSAS 41: Financial Instruments</p> | <p>Applicable: 1st January 2023: The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy. <p>The standard is currently not applicable to the Council</p> |
| <p>IPSAS 42: Social Benefits</p> | <p>Applicable: 1st January 2023 The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:</p> <ol style="list-style-type: none"> a) The nature of such social benefits provided by the entity; b) The key features of the operation of those social benefit schemes; and c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows. <p>The standard is applicable to the Council and will be adopted when it becomes effective</p> |
| <p>Amendments to Other IPSAS resulting from IPSAS 41,</p> | <p>Applicable: 1st January 2022: a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</p> |

| Standard | Effective date and impact |
|-----------------------|---|
| Financial Instruments | b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued. The standard is currently not applicable to the Council |

iii. Early adoption of standards

The Council did not exercise the choice given in the standard to early – adopt any new or amended standards in year 2020/2021.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue Recognition

i) Revenue from Non-Exchange Transactions

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 recognize apportion of development fund to be used for project administration to the statement of financial performance and the balance of Development fund to statement of changes in net assets under capital reserve and subsequently to statement of financial position. Recurrent Revenue are fully recognized to the statement of financial performance.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

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. Council shall recognise any interest earned on accrual basis in the statement of financial performance and cash flow statement.

ii) Revenue from Exchange Transactions

Fees and service charge

The Council recognizes the revenue from rendering of services as an internally generated income in statement of financial performance.

b) Budget information

The original budget for FY 2020-2021 was recommended by National Treasury on 30th June, 2020 and approved by the Board of Directors on 24th July, 2020 and subsequently by the state Department of Livestock on 5th August, 2020. Consequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

The Council's 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 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) Taxes

Corporation tax

The Council is exempted from the payment of corporation tax as stipulated in section 219 (3) of the PFM Act regulation 2015. However, the Council complies with all other statutory obligations like the PAYE and withholding taxes.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Sales tax

Expenses and assets are recognized net of the amount of sales tax, except:

- i) When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- ii) When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Council recognises expenses and assets at gross value.

d) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period. Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use.

e) Property, Plant and Equipment

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

recognized in the carrying amount of the Plant and Equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

The Council adopts a straight-line depreciation policy as follows;

| | |
|-----------------------------------|-------|
| Motor Vehicles | 25% |
| Computers | 30% |
| Furniture, Fittings and Equipment | 12.5% |
| Plant and Machinery | 33.3% |
| Building | 2% |

Free hold land and Capital work in progress are not depreciated. Depreciation of work in progress shall commence when the assets are ready for their intended use.

f) Leases

Finance leases

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 lease

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

g) Intangible assets

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 amortized at 25% per annum on straight-line basis. The intangible assets recognized in the Councils books relate to accounting software's and brandings.

h) 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:

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

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

i) Financial instruments

i) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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)

ii) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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. 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.

j) Inventories

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.

k) Provisions

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

l) Contingent liabilities

Contingent Liabilities are possible obligations that arose from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events but is not recognized because:

- It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations; or
- The amount of obligation cannot be measured with sufficient reliability.

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 any contingent liabilities.

m) 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.

n) Nature and purpose of reserves

Reserves are created and maintained in terms of specific requirements. The Council's capital and revenue reserves are maintained for purpose of development projects, contingent liabilities and capital commitments that become payable. Revaluation Reserves are the changes in fixed assets since last revaluation in 2020.

o) Changes in accounting policies and estimates

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.

p) Employee benefits

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

The Council operates a defined contribution and defined benefit scheme for its employees. The defined contribution scheme is administered by a trustee and is funded from contribution from both the employee and employer at 7.5% and 15% of the basic salary respectively. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

q) Foreign currency transactions

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 done.

r) Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

s) Related parties

The Council regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the Board of directors, the CEO, divisional directors, senior managers and head of various departments within the Council.

t) Service concession arrangements

The Council analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Council recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Council also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

u) 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. It is the policy of the Council to disclose the financial institutions where such amounts are held.

v) Comparative figures

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

w) Subsequent events

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, 2021.

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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.

a) 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)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

b) 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:

- i) The condition of the asset based on the assessment of experts employed by the Council
- ii) The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- iii) Availability of funding to replace the asset
- iv) The nature of the processes in which the asset is deployed
- v) Changes in the market in relation to the asset

c) Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 22. 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. The only provision disclosed is on audit fees, which is specific.

d) Project administrative Expenses

The Council's policy is to apportion operating expenses relating to capital project administration incurred under development vote to the statement of financial performance and the balance of development fund to statement of changes in net assets under capital reserve. During the financial year under review an amount of Kshs. 10,877,848 relating to development income was apportioned to the statement of financial performance and the balance of Kshs. 107,419,386 for capital expenditure transferred to Statement of changes in net assets and subsequently to statement of financial position. Recurrent operating expenses are fully recognized to the statement of financial performance.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. GOVERNMENT GRANTS AND CAPITATION

a) RECURRENT GRANTS

| Qtr | Month | Description | 2020-2021 Kshs | 2019-2020 Kshs |
|--------------|--------|----------------------|--------------------|--------------------|
| 1st | Aug-20 | Quarterly Capitation | 35,632,500 | 39,550,000 |
| 2nd | Dec-20 | Quarterly Capitation | 35,632,500 | 39,550,000 |
| 3rd | Apr-21 | Quarterly Capitation | 34,882,500 | 39,550,000 |
| 4th | Jul-21 | Quarterly Capitation | 45,382,500 | 39,550,000 |
| Total | | | 151,530,000 | 158,200,000 |

b) G.O.K GRANT-DEVELOPMENT

| Period | Month | Receiver | Description | 2020-2021 Kshs | 2019-2020 Kshs | 2018-2019 Kshs |
|--------------|--------|----------|--------------------|--------------------|--------------------|--------------------|
| 1st | Feb-21 | | Development Grants | 118,297,234 | 50,000,000 | 548,172,000 |
| 3rd | Feb-20 | | Development Grants | - | 217,198,089 | 200,000,000 |
| Total | | | | 118,297,234 | 267,198,089 | 748,172,000 |

c) G.O.K GRANT – DEVELOPMENT

| Item | Description | 2020-2021 Kshs | 2019-2020 Kshs |
|--------------|----------------|-------------------|-------------------|
| 1 | Administration | 10,877,848 | 10,669,836 |
| Total | | 10,877,848 | 10,669,836 |

d) G.O.K GRANT -RECURRENT (CASHFLOW)

| Qtr | Month | Description | 2020-2021 Kshs | 2019-2020 Kshs |
|--------------|--------|----------------------|--------------------|--------------------|
| 1st | Aug-20 | Quarterly Capitation | 35,632,500 | 39,550,000 |
| 2nd | Dec-20 | Quarterly Capitation | 35,632,500 | 39,550,000 |
| 3rd | Apr-21 | Quarterly Capitation | 34,882,500 | 39,550,000 |
| Total | | | 106,147,500 | 118,650,000 |

7. SUNDRY INCOME

| Description | 2020-2021 Kshs | 2019-2020 Kshs |
|-----------------------|-------------------|-------------------|
| Services fee at TPCSI | 1,546,550 | 1,037,160 |
| Other income | - | 439,500 |
| Sub-Total | 1,546,550 | 1,476,660 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. USE OF GOODS AND SERVICES

| Description | 2020-2021 | 2019-2020 |
|--------------------------------------|-------------------|-------------------|
| | Kshs | Kshs |
| Electricity | 1,159,097 | 727,814 |
| Water | 54,388 | 45,207 |
| Telephone Expenses | 9,000 | 1,876,756 |
| Courier and Postage | 9,450 | 23,200 |
| Daily Subsistence Allowance | 8,121,991 | 7,591,420 |
| Printing and Stationeries | 8,352,208 | 3,684,498 |
| Newspaper Subscription | 252,300 | 161,060 |
| Advertisement, Awareness & Publicity | 1,276,615 | 544,662 |
| Office Rent | 20,433,673 | 14,717,446 |
| Training Expenses | 747,720 | 129,720 |
| Medical Insurance | 9,692,409 | 5,896,229 |
| Hospitality, Supplies and Services | 3,073,494 | 4,301,656 |
| Contracted Professional Services | - | - |
| Purchase of coffins | - | - |
| Consultancy Services | 3,377,221 | 45,000 |
| Motor Vehicle Insurance | 476,746 | 673,930 |
| General Office Supplies | 5,983,522 | 6,369,762 |
| Security Guard Services | 1,715,484 | 1,446,701 |
| Sanitary & Cleaning Services | 1,890,864 | 898,480 |
| Motor Vehicle Fuel and Oil | 443,261 | 1,413,511 |
| Subscription & Membership fees | 113,760 | 130,920 |
| Audit Fees | 464,000 | 464,000 |
| Purchase of Uniforms | 50,000 | - |
| Hire of Transport | - | - |
| Foreign Travel | - | 81,538 |
| Domestic Travel | - | - |
| Internet Connections | 347,802 | 694,004 |
| Purchase of ICT Networks | - | - |
| Purchase of Software | - | - |
| Corporate Social Responsibility | - | 150,000 |
| ICT systems expenses | 2,142,867 | - |
| Projects administrative expenses | 6,283,586 | - |
| Total | 76,471,458 | 52,067,514 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. EMPLOYEE COSTS

| Description | 2020-2021 Kshs | 2019-2020 Kshs |
|--------------------------------------|-------------------|-------------------|
| Basic Salaries | 53,669,599 | 26,270,190 |
| House Allowance | 17,609,384 | 8,694,728 |
| Commuter Allowance | 7,598,227 | 3,796,948 |
| Leave Allowance | 4,851,177 | 223,000 |
| Other Remunerative Allowance | 1,024,718 | 751,597 |
| Pension & NSSF Employer Contribution | 4,961,776 | 1,055,055 |
| Casual Wages | - | 4,659,886 |
| Total | 89,714,881 | 45,451,404 |

10. BOARD EXPENSES

| Description | 2020-2021 Kshs | 2019-2020 Kshs |
|---|-------------------|-------------------|
| Chairman's Honoraria | 957,000 | 960,000 |
| Directors emoluments | - | 10,891,400 |
| Sitting Allowances | 6,284,000 | - |
| Daily Subsistence, Travelling & Accommodation Allow | 6,811,620 | - |
| Millage Allowance | 1,507,807 | - |
| Training expenses | 960,000 | - |
| Medical Insurance | 644,385 | - |
| Other board expenses | 344,906 | 1,185,100 |
| Total | 17,509,718 | 13,036,500 |

11. DEPRECIATION AND AMORTIZATION

| Description | 2020-2021 Kshs | 2019-2020 Kshs |
|---------------------------|-------------------|-------------------|
| Refurbishment of Building | 2,161,151 | 2,161,151 |
| Furniture and Fittings | 10,870,072 | 10,726,469 |
| Motor Vehicle | - | 3,108,402 |
| Computer and Printers | 4,032,638 | 6,319,311 |
| Office Equipment | - | 6,304,932 |
| Intangible Asset | 201,113 | 201,113 |
| Total | 17,264,973 | 28,821,378 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. REPAIRS AND MAINTENANCE

| Description | 2020-2021 Kshs | 2019-2020 Kshs |
|---|-------------------|-------------------|
| Motor Vehicle Maintenance | 1,194,712 | 887,582 |
| Maintenance of office furniture & equipment | 81,597 | 209,461 |
| Maintenance of Comps, Software and Internet | 390,126 | 406,640 |
| Maintenance of plant and Machinery | 26,700 | 355,441 |
| Refurbishment of Buildings | 694,382 | - |
| Total | 2,387,517 | 1,859,124 |

13. Finance Costs

| Description | 2020-2021 Kshs | 2019-2020 Kshs |
|--------------|-------------------|-------------------|
| Bank Charges | 38,378 | 56,349 |
| Total | 38,378 | 56,349 |

14. OPERATING EXPENSES RELATING TO CORE MANDATE

| Description | 2020-2021 Kshs | 2019-2020 Kshs |
|--|-------------------|-------------------|
| Hides & Skin Quality Improvement Programme | 675,400 | 2,148,835 |
| Capacity Building for Sector Stakeholders | 2,342,820 | - |
| Promotion & Marketing | - | 1,699,500 |
| Research & Development | - | - |
| Total | 3,018,220 | 3,848,335 |

15. CASH AND CASH EQUIVALENTS

| Description | 2020-2021 Kshs | 2019-2020 Kshs |
|-----------------|--------------------|----------------------|
| Current Account | 684,897,014 | 1,257,914,727 |
| Cash in Hand | 2,472 | 35,085 |
| Total | 684,899,486 | 1,257,949,812 |

a) Current account

Financial institution

| | | |
|-------------------------|--------------------|----------------------|
| KCB Recurrent Account | 1,671,907 | 54,159,822 |
| KCB Development Account | 587,242,890 | 1,175,636,517 |
| KCB Deposit Account | 95,982,217 | 28,118,389 |
| Total | 684,897,014 | 1,257,914,727 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. RECEIVABLES FROM EXCHANGE TRANSACTIONS

| Description | 2020-2021 Kshs | 2019-2020 Kshs |
|-------------------------|-------------------|-------------------|
| Prepayments | | |
| Fuel | 536,818 | 430,879 |
| Motor Vehicle Insurance | 91,387 | 303,116 |
| Internet Connections | - | 172,954 |
| Office Rent | - | 5,082,736 |
| Total | 628,205 | 5,989,684 |

17. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

| Description | 2020-2021 Kshs | 2019-2020 Kshs |
|-------------------------------------|--------------------|--------------------|
| Kenya Leather Park Advance Payments | 502,756,317 | 385,105,119 |
| GoK Recurrent Grant | 45,382,500 | - |
| Total | 548,138,817 | 385,105,119 |

18. INVENTORIES

| Description | 2020-2021 Kshs | 2019-2020 Kshs |
|-------------------|-------------------|-------------------|
| Consumable Stores | 6,818,387 | 6,531,423 |
| Total | 6,818,387 | 6,531,423 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. PROPERTY, PLANT AND EQUIPMENT

| | Land@ | Building | Motor vehicles@ | Furniture, fittings & Equipments | Computers@, Copiers & Printers | Plant & Machinery | Capital Work In Progress | Total |
|--|------------|-------------|-----------------|----------------------------------|--------------------------------|-------------------|--------------------------|---------------|
| Cost | | | KShs | KShs | KShs | KShs | KShs | KShs |
| At end of year - June 2019 | 44,000,000 | - | 31,166,392 | 10,435,289 | 12,215,571 | 101,048,816 | 267,350,976 | 466,217,044 |
| Additions | - | - | - | 49,054,916 | 8,848,800 | - | 25,718,920 | 83,622,636 |
| Transfers/adjustments | - | 108,057,543 | - | 26,321,549 | - | - | (108,057,543) | 26,321,549 |
| Revaluation Gain | - | - | - | - | - | - | - | - |
| As at 30 June 2020 | 44,000,000 | 108,057,543 | 31,166,392 | 85,811,754 | 21,064,371 | 101,048,816 | 185,012,353 | 576,161,229 |
| Additions | - | - | - | 1,148,824 | 431,460 | - | 565,592,877 | 567,173,161 |
| Transfers/adjustments | - | - | - | - | - | - | - | - |
| Revaluation Gain | - | - | - | - | - | - | - | - |
| As at 30 June 2021 | 44,000,000 | 108,057,543 | 31,166,392 | 86,960,578 | 21,495,831 | 101,048,816 | 750,605,230 | 1,143,334,390 |
| Depreciation and impairment | | | | | | | | |
| Depreciation as at 30.06.2019 | - | - | 28,057,990 | 4,827,512 | 11,143,882 | 94,743,884 | - | 138,773,268 |
| Depreciation/Amortization for the year | - | 2,161,151 | 3,108,402 | 10,726,469 | 6,319,311 | 6,304,932 | - | 28,620,266 |
| Depreciation as at 30.06.2020 | - | 2,161,151 | 31,166,392 | 15,553,982 | 17,463,193 | 101,048,816 | - | 167,393,534 |
| Depreciation/Amortization for the year | - | 2,161,151 | - | 10,870,072 | 4,032,638 | - | - | 17,063,861 |
| Depreciation as at 30.06.2021 | - | 4,322,302 | 31,166,392 | 26,424,054 | 21,495,831 | 101,048,816 | - | 184,457,395 |
| NET BOOK VALUES | | | | | | | | |
| As at 30 June 2020 | 44,000,000 | 105,896,392 | - | 70,257,772 | 3,601,178 | - | 185,012,353 | 408,767,695 |
| As at 30 June 2021 | 44,000,000 | 103,735,241 | - | 60,536,524 | - | - | 750,605,230 | 958,876,995 |

Note:

- i). The Council carried out valuation of its motor vehicles in the year 2018/2019. In the current year, this class is also fully depreciated and valuation can be done once in every three years in line with IPSAS 17 and hence the NBV for FY 2018/2019 forms the depreciation value for the year under review.
- ii). The Plant and Machinery is also fully depreciated and valuation shall be in the next financial year.
- iii). The additions under capital work in progress is net of advance payment of Kshs. 119,478,125 being work not done and certified.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. INTANGIBLE ASSETS

| COST/VALUATION | Software | Branding | Total |
|--|-----------------|-----------------|----------------|
| At end of year - June 2019 | - | 119,450 | 119,450 |
| Additions | 562,600 | 122,400 | 685,000 |
| As at 30 June 2020 | 562,600 | 241,850 | 804,450 |
| Additions | - | - | - |
| As at 30 June 2021 | 562,600 | 241,850 | 804,450 |
| DEPRECIATION & IMPAIRMENT | | | |
| Depreciation as at 30.06.2019 | - | 89,587 | 89,588 |
| Depreciation/Amortization for the year | 140,650 | 60,463 | 201,113 |
| Depreciation as at 30.06.2020 | 140,650 | 150,050 | 290,700 |
| Depreciation/Amortization for the year | 140,650 | 60,463 | 201,113 |
| Depreciation as at 30.06.2021 | 281,300 | 210,512 | 491,813 |
| | | | |
| NET BOOK VALUES | | | |
| As at 30th June 2019 | - | 29,863 | 29,862 |
| As at 30 June 2020 | 421,950 | 91,800 | 513,751 |
| As at 30 June 2021 | 281,300 | 31,338 | 312,637 |

21. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

| Description | 2020-2021 | 2019-2020 |
|-----------------------|------------------|------------------|
| | Kshs | Kshs |
| Provisions~Audit Fees | 464,000 | 928,000 |
| Internet Connections | - | 74,958 |
| Audit Fees | 928,000 | - |
| Total | 1,392,000 | 1,002,958 |

22. REFUNDABLE DEPOSIT FROM CUSTOMERS

| Description | 2020-2021 | 2019-2020 |
|---------------------|-------------------|-------------------|
| | Kshs | Kshs |
| Kenya Leather Park | 83,465,787 | 15,571,892 |
| Plant and Machinery | 8,382,231 | 8,382,231 |
| Intangible Assets | - | 1,313,072 |
| Pension | 4,090,134 | 1,211,592 |
| Total | 95,938,152 | 26,478,787 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. EMPLOYEE COSTS (Cashflow)

| Description | 2020-2021 Kshs | 2019-2020 Kshs |
|--------------------------------------|-------------------|-------------------|
| Basic Salaries | 52,710,085 | 25,866,333 |
| House Allowance | 17,609,384 | 8,694,728 |
| Commuter Allowance | 7,598,227 | 3,796,948 |
| Leave Allowance | 4,851,177 | 223,000 |
| Other Remunerative Allowance | 1,024,718 | 751,597 |
| Pension & NSSF Employer Contribution | 3,042,748 | 247,320 |
| Casual Wages | - | 4,659,886 |
| Total | 86,836,339 | 44,239,812 |

Note: The difference in figure of employee cost of **Kshs. 2,878,542** under statement of financial performance and cashflow statement is as a result of staff pension contributions which were deducted but not yet remitted since the Council is in the process of identifying an umbrella scheme during the year under review.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. USE OF GOODS AND SERVICES (Cashflow)

| Description | 2020-2021 Kshs | 2019-2020 Kshs |
|--------------------------------------|-------------------|-------------------|
| Electricity | 1,159,097 | 727,814 |
| Water | 54,388 | 45,207 |
| Telephone Expenses | 9,000 | 1,876,756 |
| Courier and Postage | 9,450 | 23,200 |
| Daily Subsistence Allowance | 8,121,991 | 7,591,420 |
| Printing and Stationeries | 7,752,500 | 3,684,498 |
| Newspaper Subscription | 252,300 | 161,060 |
| Advertisement, Awareness & Publicity | 1,276,615 | 544,662 |
| Office Rent | 15,350,938 | 17,232,081 |
| Training Expenses | 747,720 | 129,720 |
| Medical Insurance | 9,692,409 | 4,589,703 |
| Hospitality, Supplies and Services | 3,073,494 | 4,301,656 |
| Consultancy Services | 3,377,221 | 45,000 |
| Motor Vehicle Insurance | 265,017 | 621,453 |
| General Office Supplies | 6,258,344 | 6,369,762 |
| Security Guard Services | 1,715,484 | 1,446,701 |
| Sanitary & Cleaning Services | 1,890,864 | 898,480 |
| Motor Vehicle Fuel and Oil | 549,200 | 1,118,176 |
| Subscription & Membership fees | 113,760 | 130,920 |
| Audit Fees | - | 464,000 |
| Purchase of Uniforms | 50,000 | - |
| Foreign Travel | - | 81,538 |
| Internet Connections | 347,802 | - |
| Corporate Social Responsibility | - | 150,000 |
| ICT systems expenses | 2,142,867 | - |
| Projects administrative expenses | 6,283,586 | - |
| Release of Retention | - | 12,663,174 |
| Total | 70,494,047 | 64,896,981 |

Note: The difference in figure of use of goods and services under statement of financial performance and cashflow statement is as a result of inclusion of Rent (**Kshs 5,082,735**) due to increase in prepayment over the period, inclusion of Audit fees provision (**Kshs.464,000**), previous balances on printing and stationeries (**Kshs. 599,708**), reduction in fuel consumption (**Kshs. -105,939**), general supplies (**Kshs. 274,822**) and inclusion of motor vehicle insurance (**Kshs 211,729**) being decrease in prepayments for the services.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. Cash Generated from operations

| Description | 2020-2021 Kshs | 2019-2020 Kshs |
|------------------------------------|---------------------|-------------------|
| Surplus for the year | (42,450,748) | 25,205,892 |
| Adjusted for: | | |
| Depreciation & Amortization | 17,264,973 | 28,821,378 |
| Contribution to provisions | 464,000 | 928,000 |
| Working Capital adjustments | | |
| Increase in Inventory | (286,965) | (1,314,087) |
| Increase in receivables | (117,022,993) | - |
| Increase in payables | 69,459,365 | (6,794,031) |
| Net cash flows | (72,590,169) | 31,739,559 |

26. Cash flows from Investing Activities: PPE

| Description | 2020-2021 Kshs | 2019-2020 Kshs |
|---|--------------------|---------------------|
| Property Plant and equipment: Additions | 685,071,002 | (79,737,672) |
| Less: Retention for the period | (66,313,611) | - |
| Total | 618,757,391 | (79,737,672) |

27. Financial Risk Management

The Council's activities expose it to a variety of financial risks including credit and liquidity risks. The Council's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Council does not hedge any risks and has in place policies to ensure that these risks are minimised.

The Council's financial risk management objectives and policies are detailed below:

i) Liquidity risk management

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 Council's short, medium and long-term funding and liquidity management requirements. The Council manages liquidity risk through continuous monitoring of forecasts and actual cash flows. Insufficient budgetary allocations are a major risk as liabilities will not be settled as scheduled.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | Less than 1 month Kshs'000' | Between 1-5 months Kshs'000' | Over 5 months Kshs'000' | Total Kshs'000' |
|-------------------------------|-----------------------------------|------------------------------------|-------------------------------|--------------------|
| At 30 June 2021 | | | | |
| Trade payables | - | 464 | 928 | 1,392 |
| Current portion of borrowings | - | - | - | - |
| Provisions | - | - | - | - |
| Deferred income | - | - | - | - |
| Employee benefit obligation | - | - | - | - |
| Total | - | 464 | 928 | 1,392 |
| At 30 June 2020 | | | | |
| Trade payables | - | 1,003 | - | 1,003 |
| Current portion of borrowings | - | - | - | - |
| Provisions | - | - | - | - |
| Deferred income | - | - | - | - |
| Employee benefit obligation | - | - | - | - |
| Total | - | 1,003 | - | 1,003 |

ii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the Council on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Council's income or its purchasing power. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The Council's Internal Audit Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day implementation of those policies. There has been no change to the Council's exposure to market risks or the manner in which it manages and measures the risk.

iii) Foreign currency risk

The Council does not engage in foreign currency transactions and therefore no transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency.

iv) Interest rate risk

Interest rate risk is the risk that the Council's financial condition may be adversely affected as a result of changes in interest rate levels. Its interest rate risk arises from

NOTES TO THE FINANCIAL STATEMENTS (Continued)

bank deposits. This exposes the Council to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the Council's deposits.

Management of interest rate risk: - To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

Fair value of financial assets and liabilities

a) Financial instruments measured at fair value

Determination of fair value and fair values hierarchy. IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the entity's market assumptions. These two types of inputs have created the following fair value hierarchy:

- o Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- o Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- o Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The entity considers relevant and observable market prices in its valuations where possible.

The following table shows an analysis of financial and non- financial instruments recorded at fair value by level of the fair value hierarchy:

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------|----------|--------------------|----------|--------------------|
| At 30 June 2021 | | | | |
| Financial Assets | - | - | - | - |
| Quoted equity investments | - | - | - | - |
| Non- financial Assets | - | - | - | - |
| Investment property | - | - | - | - |
| Land & Building | - | 147,735,241 | - | 147,735,241 |
| Total | - | 147,735,241 | - | 147,735,241 |
| At 30 June 2020 | | | | |
| Financial Assets | - | - | - | - |
| Quoted equity investments | - | - | - | - |
| Non- financial Assets | - | - | - | - |
| Investment property | - | - | - | - |
| Land & Building | - | 149,896,392 | - | 149,896,392 |
| Total | - | 149,896,392 | - | 149,896,392 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

There were no transfers between levels 1, 2 and 3 during the year.

v) Capital Risk Management

The objective of the entity's capital risk management is to safeguard the Council's ability to continue as a going concern. The entity capital structure comprises of the following funds:

| | 2020-2021 | 2019-2020 |
|---|----------------------|----------------------|
| Revaluation reserve | 48,881,816 | 48,881,816 |
| Revenue Reserve | 173,971,899 | 216,422,644 |
| Capital reserve | 1,879,490,664 | 1,772,071,278 |
| Total funds | 2,102,344,379 | 2,037,375,738 |
| Total borrowings | 0 | 0 |
| Less: cash and bank balances | 684,899,486 | 1,257,949,812 |
| Net debt/(excess cash and cash equivalents) | (684,899,486) | (1,257,949,812) |
| Gearing | 0% | 0% |

28. Related Party Transactions

a) Nature of related party relationships

Entities and other parties related to the Council include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members. The Council is related to:

- i) The National Government;
- ii) The Parent Ministry: Ministry of Industry, Trade and Cooperatives
- iii) Board Members
- iv) Export Processing Zones Authority (EPZA)
- v) Nairobi City County Government (NCCG)
- vi) Key Management

b) Related party transfers

There were no transfers made to/and from the top management staff.

c) Due from related parties

There were no dues from the top management or from the council members during the year under review.

d) Due to related parties

There were no dues to and from ministries or other departments during the period under review.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29. Segment information

The Council operates with County Governments and specifically in the proximity of Nairobi and does have branch in Thika. Hence IPSAS 18 on segment reporting is not applicable

30. Contingent assets and contingent liabilities

At the close of business on 30th June 2021, the Council did not have any contingent asset or liability.

31. Capital Commitments

At the close of business on 30th June 2021, the Council did not have any capital commitments

32. Events after the reporting period

There was no material adjusting events after the reporting period.

33. Ultimate and Holding Council

The Council is a State Corporation/ or a Semi- Autonomous Government Agency under the Ministry of Industry, Trade & Cooperatives. Its ultimate parent is the Government of Kenya.

34. The Reporting Currency


The financial statements are presented in Kenya Shillings (Kshs).

APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

| Ref No. | Issue / Observations from Auditor | Management comments | Focal Point person to resolve the issue | Status: | Time frame |
|---------|--|--|---|--------------|------------|
| 1. | FY 2019/2020 Property, Plant and Equipment Land title deed at TPCSI not yet transferred to Council though several correspondences made | TPCSI land had a title deed in the name of the original trustees. The process of transferring to the Government is on-going as evidenced by our numerous communications with Kenya Association of Manufacturers (KAM) as attached. | CEO | Not Resolved | FY 2022/23 |
| 2. | Construction of Modern Common Effluent Treatment Plant at Kenya Leather Park - Kenanie, Machakos Country Lack of final agreement after the redesigning of the project. It is not possible to ascertain whether the contract price still remains the same as before to avoid future litigations between the EPZA, KLDC and the Contractor | The Contract works for 10MLD and 2.5MLD effluent treatment plants have not changed after relocated to a higher ground. The only component which will slightly reduce is the effluent relocation lines. The contractor has submitted request for change proposal and the same is being reviewed by the State Department of Public Works and the Joint Employer. | CEO | Not Resolved | FY 2022/23 |

| Ref No. | Issue / Observations from Auditor | Management comments | Focal Point person to resolve the issue | Status: | Time frame |
|---------|---|--|---|----------|------------|
| 3. | <p>Management of contract Physical verification revealed that the machines have now been moved to a storage container for an indefinite period of time and audit could not establish the value for money of Kshs.100,428,684 invested in the supply of machinery that is yet to be installed at Kariokor and TPCSI Thika.</p> | <p>The installation of machines for TPCSI is ongoing and expected to be complete by FY 2019/2020. However, it is true the machines for Kariokor had been moved to the storage container. However, the Memorandum of Understanding (MOU) between the Council and Nairobi County Government now finalized and signed.</p> <p>The Construction works in the building at Kariokor is almost complete and installation of machines will commence very soon.</p> | CEO | Resolved | FY 2021/22 |


Dr. Issack M. Noor, PhD
Chief Executive Officer

APPENDIX II: PROJECTS IMPLEMENTED BY THE COUNCIL

The projects which the Council undertook during the year under review were fully funded by the Government of Kenya, through the Ministry of Agriculture, Livestock, Fisheries & Co-operatives; State Department of Livestock.

I. PROJECT DETAILS

| S/No. | Project title | Project Number | Donor | Period/duration | Donor commitment | Separate donor reporting required (yes/no) | Consolidated in these financial statements (yes/no) |
|-------|--|----------------|-------|-----------------|------------------|--|---|
| | | | | | Kshs 'Million' | | |
| 1 | Development of Kenya Leather Industrial Park | 1 | GoK | 2017-Date | 4,809 | No | yes |

II. STATUS OF PROJECTS COMPLETIONS

| S/No. | Project title | Total project Cost | Total expended to date | Completion % to date | Budget | Actual | Sources of Fund |
|-------|--|--------------------|------------------------|----------------------|----------------|----------------|-----------------|
| | | Kshs 'Million' | Kshs 'Million' | Kshs 'Million' | Kshs 'Million' | Kshs 'Million' | |
| 1 | Development of Kenya Leather Industrial Park | 4,809 | 2,329 | 48% | 118 | 118 | GoK |
| | | | | | | | |
| | Total | 4,809 | 2,329 | - | 118 | 118 | |

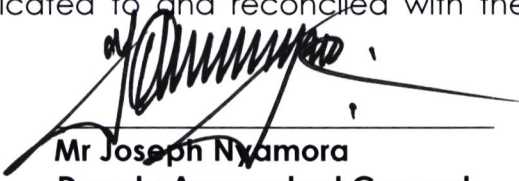
APPENDIX III: INTER-ENTITY TRANSFERS

The transfers which the Council received during the year under review were all from the National Treasury, through the Ministry of Agriculture, Livestock, Fisheries & Co-operatives; State Department of Livestock.

| Details | Bank Statement Date | Financial Year | |
|--------------------|---------------------|--------------------|--------------------|
| | | FY 2020/2021 | FY 2019/2020 |
| | | Kshs. | Kshs. |
| Recurrent Grants | Sep-20 | 35,632,500 | 39,550,000 |
| | Dec-20 | 35,632,500 | 39,550,000 |
| | Apr-21 | 34,882,500 | 39,550,000 |
| | Jul-21 | 45,382,500 | 39,550,000 |
| Total | | 151,530,000 | 158,200,000 |
| Development Grants | Feb-21 | 118,297,234 | 50,000,000 |
| | | - | 217,198,089 |
| Total | | 118,297,234 | 267,198,089 |
| Grand Total | | 269,827,234 | 425,398,089 |

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


CPA Mohamed Khalif
Manager, Finance & Accounts
Kenya Leather Development Council
ICPAK No. 13129


Mr Joseph Nyamora
Deputy Accountant General
State Department of Livestock
ICPAK No. 7770