

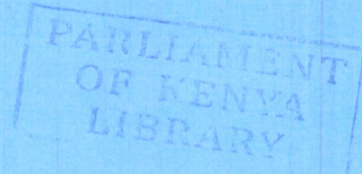
REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF



THE NATIONAL ASSEMBLY
PAPERS

THE AUDITOR-GENERAL

DATE: 15 OCT 2019 TUESDAY

MAJORITY LEADER

ON

THE FINANCIAL STATEMENTS OF
MICRO AND SMALL ENTERPRISES
AUTHORITY

FOR THE YEAR ENDED
30 JUNE 2018



MICRO AND SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2018



OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
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MICRO AND SMALL ENTERPRISES AUTHORITY
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2018

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

MICRO AND SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2018

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MICRO AND SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2018

I. KEY AUTHORITY INFORMATION AND MANAGEMENT

(a) Background Information

The Micro and Small Enterprise Authority (MSEA) is a State Corporation established under the Micro and Small Enterprise Act No. 55 of 2012. The Authority is a legal entity established by law to support development and regulation of Micro and Small Enterprises. The Authority's mandate as indicated by the Micro and Small Enterprises Act No. 55 of 2012 is Development, Promotion and Regulation of the Micro and Small Enterprises Sector.

MSEA was established by the Micro and Small Enterprises Act No. 55 of 2012, which was assented to by His Excellency the President on 31st December, 2012. The MSEA Board was gazetted by the Minister for Labour vide Gazette Notice No. 2954 of 8th March, 2013, and the Chairman appointed by H.E the President vide Gazette Notice No. 2902 of 1st March, 2013. Further, His Excellency the President through The Kenya Gazette Notice No. 2848, Vol. CXVII No. 43 dated 27th April, 2015 appointed a new Chairperson of Micro and Small Enterprises Authority Mr. Charles Waithaka for a period of three (3) years with effect from 17th April, 2015 and revoked the appointment of Mr. Paul Ngugi.

The Authority is categorized as a Service State Owned Agency in Class 3B. The Vision of the Authority is "Globally competitive Micro and Small Enterprises" and the Mission as "To promote the development of Competitive and Sustainable Micro and Small Enterprises".

At Cabinet level, the Authority is represented by the Cabinet Secretary for Industry, Trade and Cooperatives, Mr. Adan Mohamed, who is responsible for the general policy and strategic direction of the Authority.

(b) Principal Activities of the Authority

The principal activity of the Authority is to promote the development of competitive and sustainable Micro and Small Enterprises.

(c) Key Management

The board of directors who served the Authority during the year was as detailed in pages (5) to (8).

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2018 and who had direct fiduciary responsibility were as detailed in page (9) to (10).

(e) Fiduciary Oversight Arrangements

The board of directors has formed an Audit and Risk Committee consisting of 5 members of whose main responsibilities are:

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- (i) Assist the board in oversight of the accounting and financial reporting process and practices.
- (ii) Oversee the internal audit department and review its own plan.
- (iii) Monitor adequacy of internal accounting procedures & controls.

(f) Authority's Headquarters

P.O. Box 48823-00100
10th Floor Utalii House
Utalii Lane/ Uhuru Highway
Nairobi, KENYA

(g) Authority's Contacts

Office of the Chief Executive Officer
Telephone: (254)020-3340006/0700-666000
E-mail: msea@mseauthority.go.ke/ mseakenya@gmail.com
Website: www.mseauthority.go.ke

(h) Authority's Bankers

National Bank of Kenya
P.O Box: 72866- 00200
Kenyatta Avenue
Nairobi, Kenya

Kenya Commercial Bank of Kenya
P.O Box: 30012- 00100
Kipande House
Nairobi, Kenya

Kenya Commercial Bank of Kenya
P.O Box: 69695- 00400
Milimani Branch
Nairobi, Kenya

(i) Independent Auditors




Auditor General
Office of the auditor General
Anniversary Towers, University Way
P.O.Box 30084
GOP 00100
Nairobi, Kenya

(j) Principal Legal Adviser

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

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II. THE BOARD OF DIRECTORS

Name of the Chairman/Director	Director's Details
	<p>Mr. Charles Waithaka: Chairman Born on 3rd March, 1976, Mr. Charles Waithaka holds a Master of Business Administration from University of Wales, United Kingdom, Bachelor of Arts Degree in Project Management from Kingsbridge University, United States and a Diploma in Information Technology from Kenyatta University. He has over sixteen (16) years' experience in Leadership and Project Management and has worked in simultaneous multi-community mobilization initiatives.</p> <p>Mr. Waithaka has worked with Government, UN bodies, civil societies and Private Sector in various capacities. He has served as a Chairman of KEPCO an Apex body of six coalitions of small scale producers in the Country. He has served as an Executive Director of International Consortium of Community Based organizations (ICCOBO), served as a Director in the NGO Coordination Board, has been an Executive Committee Member of NCKK, an Executive Member of Anticorruption Civilian Oversight Committee, served as an Executive Member of Regional Youth Forum (RYF) representing 6 Countries. He was the Organizing Secretary for Empowering of Youth & Enterprise Support (EYES AFRICA) and the founder Member National Youth Council (NYC) that led to formation of the Ministry of Youth.</p>
	<p>Mr. Benjamin F. Nkungi: Director Born in 1955 Mr. Benjamin Nkungi holds a Bachelor of Arts degree in Sociology and Economics from University of Nairobi, 1978 – 1981 specializing in Economics and Social Research, Masters of Science – Msc. Economics University of Wales-UK-1988-1989 and ACCA Diploma in Financial Management. He was the Chief Executive Officer for Association of Microfinance Institutions Kenya and has over 20 years working experience in various sectors. Education, training and work experience is in Enterprise Development specializing in Micro financing. He is a <u>Member of the Kenya Private Sector Alliance (KEPSA) Board</u>, Canyon Rural Credit, ASMEP, Board of the Micro Enterprises Support Programme Trust and Governing Council of Methodist Church.</p>
	<p>Mr. John Maina Muhoro: Director John Maina Muhoro serves the Micro and Small Enterprises sector in various capacities both within Kenya, the East African Community and African region in general. He is the National Chairman of the Kenya National Federation of Jua Kali Associations (KNFJA), an umbrella association of primary Artisans small business associations across Kenya. Maina is also Vice Chairman of the Confederation of informal sector organizations Kenya Chapter and sits at the Apex Regional EAC Umbrella body of CISO East Africa.</p> <p>In 2005, he was appointed the Chairman of a UNDP Project executed by the Asian Foundation to the Ziwani Jua Kali Demonstration and training Centre. Mr. Maina has served in other capacities including being the A.G. Chairman of the Starehe Constituency Development Fund (CDF), Board Member of Kenya National Chamber of Commerce and Industry, and Chairman of Finance Committee Kenya Polytechnic. He is currently the Chairman of the Ziwani Jua Kali Engineering works association, Chairman of Kenya National Jua Kali Savings and Credit Society, Board Member, Finance and Administration at Kenya Industrial Property Institute and holds a Diploma in Motor Vehicle Mechanics and Administration among other qualifications in management and related courses.</p>




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	<p>Mr. John M. Kihiu: Director Born 12th December, 1964, Mr. Kihiu holds certificate in Entrepreneurship Training skills from Peoples Republic of China. He is currently the Chairman of the Kenya National Hawkers Association, (KENAHA), founder Member and Chairman of Association of micro and small enterprises Associations of Kenya and currently the Director of MSMEs at the Kenya National Chamber of Commerce. He represents the small traders in the Authority, Secretary General CISO (EA) and Chairman CISO (Kenya Chapter). He is also the Chairman of MSE Presidential Round Table. He is the Chairman of the County Anti- Corruption Civilian Committee (Nairobi County) He represents Informal Sector in Global fund on HIV & AIDS, TB and Malaria</p>
	<p>Ms. Joy Limo: Director Born 5th January 1959, Joy Limo holds a Master of Science in Counselling and Life Coaching from Hagarstown, Maryland. She holds a Bachelor of Education from Kenyatta University. She has lectured in Moi Teachers and Shanzu Teachers Colleges. She is founder of Heritage Preparatory Schools of Africa, An official in Association for Physically Disabled of Kenya, Founder of Queen's Court Academy Mentorship Programs, and Founding Member of Kenya BoROP Farmers Export Association. Member African Women's Entrepreneurship Program.</p>
	<p>Mr. Keli Kiilu, MBS , OGW: Director Born in April, 1955 Mr. Keli Kiilu is a member of the East African Business Council where he has served on various capacities including being a Vice Chairman. He coordinates the parliamentary and the Presidential round table in Kenya. A staunch supporter of the MSE Sector in the EAC Region as demonstrated by his support for the MSE Exhibitions over the last 20 years. He has also served in the Board of KAM and KEPSA among others. Finally he is the deputy partner of East Africa CISO. He is currently the ambassador of East African Bussiens Community</p>
	<p>Ms. Lucy Muchoki: Director Lucy Muchoki is founder and Chief Executive Officer of Kenya Agribusiness and Agro-industry Alliance (KAAA) a private, not for profit membership organization dedicated to strengthening Kenyan agro-industrial competitiveness. She has also served as Chief Executive Officer of the Pan African Agribusiness and Agroindustry Consortium (PanAAC), a Regional Agribusiness platform that is mobilising and supporting the domestic private sector in Africa. Ms Muchoki, an accomplished Kenyan entrepreneur, has a major interest in the tea and horticultural industry. She is the Vice Chair of the CAADP Non-State Actors Regional Taskforce and has been instrumental in developing the Agribusiness strategy for Africa through collaboration with the African Union Commission and the Nepal Planning and Coordinating Agency (NPCA). She is a member of several advisory councils, such as those in Sustainable Agriculture Initiative (SAI), an international food industry network that supports sustainable agriculture, in the 'Scale up programme' funded by the Dutch Government, a programme that supports small holder farmers and in the UNDP report on inclusive business models guiding council. She is also the private sector representative and steering committee member of Paepard, African Europe partnership programme on research for development and Global Form for Agricultural Research (GFAR). She is member of the steering committees of the AUC for an initiative on Aflatoxin control</p>




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	<p>programme for Africa (PACA), rural infrastructure/market access programme and Ecological Organic Initiative.</p>
	<p>Mr. Richard N. Muteti: Director Born in 1969, Mr Richard Muteti is the Chief Executive officer of the Kenya National Federation of Jua Kali Associations (KNFJA), an umbrella association of primary small businesses associations across the country since 2006. Also founder and Director of the Small and Medium Enterprise Support, East Africa (SMES-EA) an institution that works in partnership with individual and small business membership associations in Kenya and the East African region to facilitate their access to critical inputs needed for their development. In 2008, he was Appointed the Regional Project Manager for the East Africa Community (EAC) Jua Kali/Nguvu Kazi Exhibitions, He sits as a member of the Presidential Private Sector Working Forum in Kenya. Mr. Muteti received a Head of State Commendation Awarded by His Excellency the President of the republic of Kenya for distinguished service to the society on 12th December 2009. Mr. Muteti is currently the chairman of the COMESA Business Council SME's workgroup.</p>
	<p>Mr. Anthony Kwache: Director Mr Anthony Kwache was born on 12th December 1971. Mr Kwache joined the Micro and Small Enterprises sector in the year 1995 after a stint in formal employment as a newspaper vendor and selling merchandise in Nairobi and later moved to Kisumu the same year to continue along Oginga Odinga Street. In the year 1999 he started supplementing his income by venturing into vegetables farming in his rural home. During this period he was elected to be the chairperson of the traders, shoe shiners and the newspaper vendors in Kisumu to lead in advocating for their recognition and provision of a suitable environment for their businesses. He also joined hands with the Jua Kali Associations to champion for the enactment of laws and regulations that could enhance the governance and growth of the valuable sectors. In the year 2005 when the Institute of Economic Affairs was conducting a research on the organizing and governance of the trade and service sectors, Mr Kwache was part of the team and was first elected in 2008 as a co-opted member of the management board and national executive member. This gave birth to the Kenya National Association of Street Vendors and Traders (KENASVIT). KENASVIT is a network of small entrepreneurs of who are in service and trade sectors. Back at home he is the chairperson of Kisumu Informal Traders and Economic Support which is affiliated to KENASVIT. He has championed for provision of adequate worksites for the members of the Jua Kali and other sectors, the enactment of the MSE Act 2012 and has been leading KENASVIT in sensitizing the sector members on the Act and following up on its full implementation. He is also Chairman of Kisumu County MSE Association.</p>
	<p>Mr. Isaac Mbingi Okello: Director Born in 1964, Mr. Isaac Mbingi Okello holds a Master of Commerce Degree (Business Management) with over 20 years' experience in Human Resource and Administration in both the public and private sector. He is an Advocate of the High Court of Kenya and holder of a Post Graduate Diploma in Law from the Kenya School of Law and a Bachelor of Laws Degree from the University of Nairobi. He is currently the Administrative Secretary, Central organization of Trade Unions, Kenya (COTU- K). He is a member of the Kenya Institute of Management and the Law Society of Kenya.</p>





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	<p>Ms. Zohra Baraka: Director Zohra Baraka was born on 26th March, 1963. She is the founder and Executive Director at Mohazo Ex Impo Limited in Kenya that has had milestones in commercial crafts in the global markets for the last 24 years hence giving a platform for Africa to showcase the rich ethnic culture that they bring to the global market place. Zohra also serves in various organizations that promote gender equality, women leadership and cross cultural exchange in education and business and also supports dialogue between communities. She has also been recognized in the National Jitihada Awards in Kenya where she won first place in the Best Business Plan Competition and also Woman Entrepreneur of the year 2009. In 2011 she was nominated as the African Women Entrepreneurship Programme (AWEP) ambassador for Kenya and now sits as the Board Chairperson for AWEP. She is also a Board member for Federation of Womens Entrepreneur Associations (FEWA), Board of the South South Centre (SSC) and also sits in the Colorado State University and United States International University (USIU) Board.</p>
	<p>Mr. Humphrey Njoroge: Director Humphrey Njoroge Ndung'u was born on 23rd September 1962. He is married with three children. Mr Ndungu is a visionary, delivery and execution leader with over thirty-three years' progressive responsibility heading teams, providing strategic solutions and large scale projects with companies and organisations. He also has expertise in executive leadership, product management, contract negotiations, and business development. Successful experience building innovative digital businesses. His latest stint was at Mobile Decisioning Holdings Limited where he worked as Group Chief Financial Officer 2011 – 2012, Group Chief Operating Officer 2012 – 2013 and Group Director, Strategy 2013 – 2014. He has also worked for Equity Investment Bank Limited, Renaissance Capital Kenya Limited, K-Rep Bank Limited, Consolidated Bank of Kenya Limited, Standard Chartered Bank PLC - South Africa, Standard Chartered Bank Kenya and Limited First American Bank of Kenya Limited</p>
	<p>Patrick Z.K. Mwangi: Chief Executive Officer Born 29th February 1964, Mr Patrick Mwangi holds a Masters Degree from the University of Manchester, UK in the field of Governance of Public Policy and Management. He has vast exposure and training in Project, finance and human Management within the public sector, agri-business and environmental conservation. His innovative and decision making skills have Transformed opportunities, integrating analytical Change and professionalism in realizing successful implementation of policies in various sectors. He is a career Administrator having worked in many parts of the country diverse Ministries both the Executive and polity levels.</p>

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III. MANAGEMENT TEAM

MANAGEMENT NAMES	MANAGEMENT DETAILS
	<p>Mr. Patrick Z.K. Mwangi: Chief Executive Officer Born 29th February 1964, Mr Patrick Mwangi holds a Masters Degree from the University of Manchester, UK in the field of Governance of Public Policy and Management. He has vast exposure and training in Project, finance and human Management within the public sector, agri-business and environmental conservation. His innovative and decision making skills have Transformed opportunities, integrating analytical Change and professionalism in realizing successful implementation of policies in various sectors. He is a career Administrator having worked in many parts of the country diverse Ministries both the Executive and polity levels.</p>
	<p>Mr. Joseph Kimwele: Head, Finance and Accounts Born 1979, Mr. Kimwele holds Masters degree in Finance, has a Bachelor degree in B.Com (Accounting) and Certified Public Accountant CPA(K) Has worked as a Finance Officer for a period of 8 years in the Public Service.</p>
	<p>Ms. Susan Chelagat, Head Legal Department Born in 1979, Ms. Susan Chelagat is an Advocate of Kenya and holds a Master of Arts Degree in International Conflict Management from the University of Nairobi, Postgraduate Diploma in Law from Kenya School of Law and Bachelor of Laws (LLB) from Moi University. She has worked in the Public Service as a State Counsel for a period of 6 years.</p>
	<p>Mr. Peter K. Kivuva, Head, Human Capital and Administration Born in 1977, Mr. Katiku Kivuva holds Masters of Business Administration in HRM, Bachelor of Education - Business and Economics, Higher Diploma in HRM, Certificate in Counselling, ICDL. He is a full registered member with the IHRM. Has experience of over 11 years in Human Resource Management in Public Service</p>

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Ms. Caroline A. Kungu, PA/Board liaison Officer

Born in 1974, Ms. Caroline Kungu holds a Master of Business Administration and a Bachelor of Commerce in Marketing from the University of Nairobi. She has worked in the Banking Sector and Fast Moving Consumer Goods Industry and has 9 years' experience in Micro and Small Enterprises Development.

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IV. CHAIRMAN'S STATEMENT

As globalization continues to define the way the world does business, Kenya as a country is expected to produce world-class goods and services. The role a country plays in the global markets will largely depend on its competitiveness and strategic positioning. However, this can only be true if country nurtures its indigenous entrepreneurs to ensure improved efficiency to effectively compete globally, the task of ensuring achievement of this goal, squarely lie in the Micro and Small Enterprise Authority.

Kenya's Industrial Sector is relatively large within the region. However, it has yet to unleash its full potential to function as "an engine of economic growth" especially when compared with the newly industrialized emerging economies. More effective programs for increased value addition and support to local Micro and Small Enterprises, which have the potential for employment and wealth creation, growth and graduation into medium and large enterprises.

As Kenyans celebrate having an Act of Parliament recognizing Micro and Small Enterprise sector as a key player in economic growth and development, The MSEA Board is grateful to all the stakeholders including the Ministry of Industry, Trade and Cooperatives, Ministry of Devolution and Planning especially the Directorate of Personnel Services and Management, The National Treasury, the Inspectorate of State Corporations, Public Service Commission and the State Corporations Advisory Committee for their support in Development of Micro and Small Enterprises Sector.

I also take this opportunity to appreciate the hardworking Micro and Small Entrepreneurs who have endeavoured to provide quality products, employment and creation of wealth hence increasing livelihood of many Kenyans. The Board has made good progress since its establishment as a State Corporation and it is my desire and hope that with the coming years, Kenya will be recognized for its quality and competitive products emanating from the unique creative and innovative MSE sector.

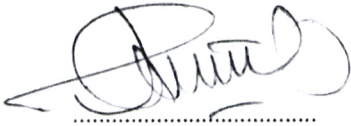
During the year under review, the Board concentrated on fostering strong partnerships, working with National and County Governments, coordinating MSE sector activities, developing a mechanism for MSE products competitiveness, facilitating access to decent working environment for MSE sector, expanding markets for MSE products and services, increased jobs/ employment in the MSE sector and enhancing entrepreneurship culture. In the near future, MSEA will refocus the energy towards activities and programmes geared towards achievement of **Vision 2030** and compliance with the **Constitution of Kenya, 2010**.

As the Chairman of the Board, I look back and realize that we could not have made it without the hard working staff who carry the dreams of MSEs on their shoulders. On behalf of the Board of Directors, I take this opportunity to thank this endearing team, which has worked tirelessly under the able guidance and leadership of the Chief Executive Officer.

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I have had the pleasure of seeing the Board and staff endeavours to meet the Board's mandate and now urge our leaders in their various capacities to continue to provide a platform for Micro and Small Entrepreneurs to enable them contribute towards economic growth of the country.

Finally, I wish to thank all the stakeholders for supporting our work throughout the year.



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Charles Waithaka, Chairman

MICRO AND SMALL ENTERPRISES AUTHORITY
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V. REPORT OF THE CHIEF EXECUTIVE OFFICER

The Micro and Small Enterprises Authority (MSEA) is a State Corporation established under the Micro and Small Enterprise Act No. 55 of 2012 and currently domiciled in the Ministry of Industry trade and Cooperatives. The Act provides for Promotion, Development, Regulation of Micro and Small Enterprises and establishment of the Micro and Small Enterprises Authority.

The object and purpose of the Act is to provide for the legal and institutional framework for the promotion, development and regulation of Micro and Small Enterprises by; providing an enabling business environment, facilitating access to business development services by Micro and Small Enterprises, facilitating formalization and upgrading of Informal Micro and Small Enterprises, Promoting an Entrepreneurship Culture and promoting representative Associations.


Functions of the Micro and Small Enterprises Authority (MSEA) as provided for by the Micro and Small Enterprises Act include; Formulate and review policies and programs; Monitor and evaluate the implementation of existing policies and programme; Coordinate, harmonize and facilitate integration of Policies, programmes, activities and development plans for the Sector; Mobilize resources for development of the sector; promote and facilitate product development and patenting; conduct various research, surveys and analysis of the sector; facilitate earmarking of suitable parcels of land; facilitate development of suitable infrastructure for MSE development; promote innovation and development of products by MSEs; facilitate technology acquisition, development and transfer to Micro and Small Enterprises; promote access to markets and provision of marketing services; formulate and promote capacity building programmes; develop mechanisms, tools and programs for collection of comprehensive data disaggregated by sex, region and age among others in collaboration with key stakeholders, to enable proper planning for MSE sector, gathering and disseminating information.

During the period under review, the Authority achieved the following; facilitated 2700 MSEs to attend various exhibitions and Trade fairs such as the 18th EAC Jua Kali /Nguvu Kazi Exhibition held in Bujumbura - Rwanda where 270 MSEs participated. Further, the Authority facilitated capacity building of 3797 MSEs in skills upgrading, entrepreneurship, and Business Management. Also, MSEA developed MSE Act Regulations and MSE worksite management regulations and submitted them to the Office of the Attorney General for legal Vetting. The regulations awaiting to be subjected to stakeholder participation and gazettelement.

On behalf of the Board and Management, I would like to take this opportunity to recognize and appreciate the direction and contribution of the Cabinet Secretary, Mr. Adan Mohamed and the Principal Secretary, Patrick Nduati Mwangi who have buoyed the efforts of the Board in meeting the expectations of the Public. I also appreciate the National Treasury for the continued support in providing the resources to get us where we are today. For all our stakeholders and general public who have continued to believe in us, I say thank you very much.

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I wish to once again assure my colleagues and partners in the MSE Sector of my utmost commitment to serve you with diligence expediency and passion to realise your dreams today and for your future generations and more so actualise the Vision 2030.



.....

Nobby Macharia
For: Chief Executive Officer

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VI. CORPORATE GOVERNANCE STATEMENT

Corporate governance refers to the principles, processes and practices by which an organization is operated, regulated and controlled so as to fulfil its goals and objectives in a manner that adds value and benefits all its stakeholders.

The Board of Management of Micro and Small Enterprises Authority is responsible for the governance role of the Authority. Both the Board and senior management of the Authority are committed to the highest levels of corporate governance, which it considers critical in achieving the Authority's mandate. Accordingly, the Authority therefore fosters a culture that values and rewards the highest ethical standards and personal and corporate integrity.

The Role of the Board

The Board's responsibilities are broadly set out in the State Corporations Act, Cap.446 Laws of Kenya while the composition as well as functions of the Authority is set out in the Micro and Small Enterprises Act, 2012 that establishes the Authority as a State Corporation. Specifically, the Board defines the Authority's strategies, objectives and values and ensures that its procedures and practices are in tandem to ensure effective control over strategic, financial, operational and compliance issues.

The Directors bring a wealth of experience and knowledge to the Board's deliberations. Except for direction and guidance on general policy, the Board delegates authority of its day-to-day activities to the Management through the Chief Executive Officer. The Board nonetheless is responsible for the overall stewardship of the Authority and assumes responsibility for effective direction and control.

Composition of the Board

The Board comprises Seventeen (17) Directors including the Acting Chief Executive Officer. Twelve (12) of the Directors are independent non-executive directors including the Chairman. All non-executive Directors retire after a term of three (3) years from the date of appointment and are eligible for re-appointment, excepting the Chief Executive Officer, the remaining four (4) Directors are institutional representatives bringing on Board closely-knit interests, experiences and balance from and by key stakeholders.

The Acting Chief Executive Officer is the Secretary to the Board and works closely with the Head of the Legal unit who is the designated officer in charge of corporate governance within the Authority. In this regard, the Head of legal unit facilitates all directors to have full and timely access to all relevant information, ensures that the correct board procedures are followed and advises the Board on all corporate governance matters and prevailing statutory requirements.

Board Meetings

The Board schedule of meetings is prepared annually in advance. The Board holds its regular meetings at least once every three (3) months and special meetings may be called when necessary. During the year under review, the Board held four (4) regular and four (4) special meetings.

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Committees of the Board

The Board has the following principle Committees that meet under defined terms of reference set by the Board. This is intended to facilitate efficient decision-making of the Board in discharging its duties and responsibilities.

a) Audit and Risk management Committee

The Committee assists the Board in fulfilling its corporate governance responsibilities and in particular to strengthen the effectiveness of the internal audit function; maintaining oversight on internal control systems; provision of general oversight in risk and compliance matters; and ensuring implementation of audit reports and recommendations. The Committee held three (3) regular meetings in the year under review.

b) Finance, Human Resource and Administration Committee

The Committee reviews and provides recommendations on issues relating to all human resource policies and procedures, Resource mobilization, work planning and budgeting, procurement oversight, performance contracting and ensuring compliance with legal and statutory requirements. The Committee held three (3) regular and two (2) special meetings and in the year under review.

c) Strategy and Business Development Services Committee

The committee deals with Policy formulation and review, Strategy Planning, Research and Product Development, Protection of Intellectual property, Marketing and Access to markets, Technology development, acquisition and transfer, Training and capacity building for MSEs and Monitoring and Evaluation systems. The Committee held three (3) regular and one (1) special meeting and in the year under review.

d) Development and Infrastructure

The Development and Infrastructure committee is responsible for the Acquisition and documentation of land for MSE use, Infrastructure Development, MSE Centres of Excellence development and equipping, facilitating access to Markets and Exhibition centres for MSEs and Jua Kali sheds and work sites acquisition and development. The Committee held three (3) regular meetings and in the year under review.

Performance Contract

The Board annually signs a performance contract with the Government as well as setting Corporate Performance Strategies with Management and continues to perform an annual self-evaluation exercise to review and audit its role and success or otherwise to meet the challenges envisaged at the beginning of each year.

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Training and Development

The Authority recognizes the importance of having a well informed and fully empowered Board and Management. In this regard, relevant training and capacity development opportunities are organized to equip Directors and staff with skills and knowledge necessary to effectively perform their responsibilities

Conflict of Interest

The Directors are required to make written disclosures of any transaction in which they have interest and which would constitute a conflict of interest and abstain from voting when such matters are being considered.

Directors Emoluments

The Board of Directors are entitled to a sitting and other allowances (where applicable) for every meeting attended, within the set Government guidelines. The aggregate amount of emoluments paid to the Directors during the financial year for services rendered are disclosed in the accounts.

VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Micro and Small Enterprises Authority recognizes its obligations to act responsibly, ethically and with integrity in its dealings with staff, customers, neighbours and the environment as a whole.

Firstly, the Authority plays an important role in the social-economic development of the country and provides one of the most prolific sources of employment, income generation, poverty reduction and development of industrial base.

The Authority's major source of funding has been through the Exchequer from the National Treasury in the form of Recurrent and Capital grants. However, the Authority is developing worksites management regulations to be able to have internal revenue generation. The Authority has also developed most of its operational Manuals, in Human resource management and Development, Finance and Procurement and regulations to guide Micro and Small Enterprise (MSE) infrastructure development of its sites.

In the mentioned policies, the Authority has put in focus the need to utilize the public funds that are entrusted to it in the effective and efficient manner, to deliver quality services to its clients and give back to the society as much as it's responsibly capable.

Further, the Authority is dedicated to creating a workplace that is safe, fair and enriching. Safety procedures and programs are constantly monitored and improved to help ensure that our employees work safely. We foster a workplace culture in which the rights, needs and unique contributions of each employee are respected. We also support professional development opportunities for every employee.

In terms of moving forward, the Authority remains firmly committed to the tenets of corporate social responsibility as it continues to deliver on its mandate and functions.

MICRO AND SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2018

VIII. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2018 which show the state of the Authority's affairs.

Principal activities

According to the MSE Act, The principal activities of the Authority were established for the purpose of promoting, developing and regulating the Micro and Small Enterprises sector.

Results

The results of the Authority for the year ended June 30, 2018 are set out on pages 1 to 22.

Directors

By the order of the Board and signatory details as per reporting format in the PSASB prescribed IPSAS template
The members of the Board of Directors who served during the year are shown on pages (v) to (viii).

Auditors

The Auditor General is responsible for the statutory audit of the authority in accordance with the Public Finance Management (PFM) Act, 2012.

MICRO AND SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2018

IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

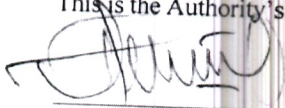
The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year (period) ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the authority; (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 Authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of authority's transactions during the financial year ended June 30, 2018, and of the Authority's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

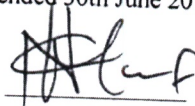
Nothing has come to the attention of the Directors to indicate that the Authority will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

This is the Authority's financial statements for the year ended 30th June 2018 and signed by:



Charles Waithaka
Chairman



Nobby Macharia
For: Chief Executive Officer

Date.....16/9/2019

Date.....16/9/2019

MICRO AND SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2018

X. REPORT OF THE INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON MICRO AND SMALL ENTERPRISES AUTHORITY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Micro and Small Enterprises Authority set out on pages 21 to 45, which comprise the statement of financial position as at 30 June 2018, and statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Micro and Small Enterprises Authority as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Micro and Small Enterprises Authority Act, 2012 of Laws of Kenya.

Basis for Qualified Opinion

1. Property, Plant and Equipment;

As reported previously, the property, plant and equipment balance of Kshs.55,181,414 as at 30 June 2018 excludes undetermined value of properties in 154 industrial development centres. Further, some other non-current assets of undetermined value are held by the Authority for transfer to various Constituency Industrial Development Centres (CIDs). In addition, the list, location and the value of the assets meant for onward transfer to CIDs as well as the signed report of the Parent Ministry delinking the centres from the Authority were not availed for audit review. Apparently, the management has not taken stock of all its land, buildings and other properties and valued them to establish their accounting treatment in the Authority's books of account.

2. Trade and Other Receivables

Note 10 of the financial statements as at 30 June 2018 reflects trade and other receivables figure of Kshs.10,398,752 which includes Kshs.8,028,750 indicated as

Report of the Auditor-General on the Financial Statements of Micro and Small Enterprises Authority for the year ended 30 June 2018

receivables from the Parent Ministry which has not been supported. The financial statements of the Parent Ministry had not recognized pending bills as at 30 June 2018. In the circumstances, it was not possible to accuracy of Kshs.8,028,750.

3. Non-Compliance with Procurement Laws and Regulations

As previously reported, the Authority procured and paid for a machine (Bar-Sheer) for use at the common user facility at Kariobangi Center of Excellence from a local company at a cost of Kshs.6,200,000 without any formal contract. The tender committee minutes of 17 June 2015 indicated that the Authority used "request for quotation" as the procurement method. However, the Public Procurement and Disposal (amendment) Regulations, 2013 requires the maximum level of expenditure under request for quotation method of procurement at Kshs.2,000,000 and a minimum of Kshs.6,000,000 under national open tender. Further, the Authority did not enter into a formal contract with the supplier considering the complexity and significant cost of the machine. Although the machine was delivered in December 2015 and the supplier having been fully paid, by the time of audit inspection in January 2019, the machine was still lying idle and was yet to be commissioned.

Further, information available indicated that the Authority was still waiting for the supplier to configure the machine before it is commissioned. Therefore, the Authority failed to comply with the procurement laws and regulations and further failure to commission the machine is an indication that the Authority did not obtain the value for money from the purchase of the machine costing Kshs.6,200,000.

4. Payment for Security Bills

As previously reported in 2014/2015, the parent Ministry transferred to Constituency Industrial Development Centres (CIDCs) liabilities of Kshs,105 million which had accrued up to 31 December 2014 and further instructed the Authority to make payments of Kshs.50 Million before the contract to transfer CIDCs was signed between the Ministry and the Authority. It was, however, noted that the management approved the payment of security services to various security firms totalling Kshs.47,460,760 before the CIDCs were handed over to the Authority by the Ministry and before the handing-over agreement between the Authority and the parent Ministry was signed on 29 January 2015. The outstanding balance of security services as at 30 June 2015 amounted to Kshs.57,539,240. Clause 5(i) of the signed contract had clearly indicated that the Ministry had undertaken to pay all the pending and current bills relating to security services for the existing contracts up to 3 December 2014 before handing over to the CIDCs but the management went ahead and paid the bills owed by the Ministry before signing the agreement and yet there was no provision for payment of security services in the budget. During the year ended 30 June 2016, the Authority made further payments totalling Kshs.22,493,912 leaving a balance of Kshs.38,980,528 as at 30 June 2016. However, this amount of Kshs.22,493,912 includes Kshs.1,628,000 paid to two local firms which were not included in the Authority's outstanding bills statement as at 30 June 2015. The anomaly indicates that the outstanding creditors balances were not reconciled prior to the payments. In addition, some of the payments were supported by undated invoices and photocopies of documents while others were new invoices raised during the year 2015/2016 purporting to support services provided during the financial years 2013/14 and

2014/15. No explanation has been provided as to why the service providers did not provide certified copies of original invoices as issued to the parent ministry. These anomalies casts doubt on the validity on payments for the security service totalling to Kshs.38,980,528 debts reported as at 30 June 2016.

Consequently, it has not been possible to confirm probity in use of the public funds amounting to Kshs.105 million applied by the Authority to pay for the security bills which ought to have been settled by the Ministry.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Micro and Small Enterprises Authority in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. I have determined that there are no Key Audit Matters to communicate in my report.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described on the effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing

else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Weak Internal Controls

As previously reported, the Authority relies on staff members deployed from the parent Ministry with the exception of the Chief Executive Officer. Consequently, the Authority does not have full control of staff members, which hampers the service delivery and execution of the Authority's mandate.

Basis for Conclusion

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

Responsibilities of Management and Those Charged with Governance

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

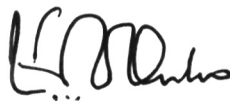
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the sustainability of services, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Authority 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 Authority to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

Nairobi

13 August 2019

MICRO AND SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2018
STATEMENT OF FINANCIAL PERFORMANCE

		2017-18	2016-17
	Note		
		Shs	Shs
Revenue from non-exchange transactions			
Transfers from other governments	1	234,318,036	189,824,821
Revenue from exchange transactions			
Rendering of services	2	1,477,120	1,752,423
Total revenue		235,795,156	191,577,244
Expenses			
Goods and Services	3	105,141	1,219,876
Employee costs	4	11,296,292	7629484
Remuneration of directors	5	10,807,715	11,389,198
Depreciation and amortization expense	6	12,006,940	21,900,048
Repairs and maintenance	7	800,333	4,799,864
General expenses	8	152,747,754	184,074,346
Total expenses		187,764,175	231,012,816
Surplus for the period		48,030,981	-39,435,572

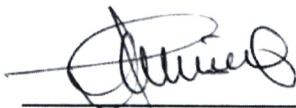
MICRO AND SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2018

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2018

		2017-18	2016-17
	Note		
Assets		Shs	Shs
Current assets			
Cash and cash equivalents	9	70,943,261	5,411,952
Receivables from exchange transactions	10	10,398,752	5,146,770.00
		81,342,013	10,558,722
Non-current assets			
Property ,plant and equipment	12	55,181,414	33,599,213
Total assets		136,523,427	50,396,228
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	11	54,521,151	37,629,699
Provision for Audit Fees		450,000	450,000
Withholding Tax			585,373
Total liabilities		54,971,151	38,665,072
Net assets		81,552,937	11,731,156
Reserves		-30,824,136	-78,855,447
Accumulated surplus		112,377,073	90,586,603
Total net assets and liabilities		81,552,937	11,731,156

The Financial Statements set out on pages 21 to 25 were signed on behalf of the Board of

Directors on _____ by:



 Chairman



 For: Chief Executive Officer

Date.....16/9/2019

Date.....16/9/2019

MICRO AND SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2018

STATEMENT OF CHANGES IN NET ASSETS

	Surplus reserves	Capital Grants	Total
	Kshs	Kshs	Kshs
Balance as at 1 July 2015	9,654,651	57,371,539	67,026,190
Surplus/(deficit) for the period	-49,074,526	-	-49,074,526
Assets Purchased from Capital Grants		33,215,064	33,215,064
Balance as at 30 JUNE 2016	-39,419,875	90,586,603	51,166,728
Balance as at 1 July 2016	-39,419,875	90,586,603	51,166,728
Surplus for the period	-39,435,572		-39,435,572
Assets Purchased from Capital Grants	-	-	
Balance as at 30 JUNE 2017	-78,855,447	90,586,603	11,731,156
Balance as at 1 July 2017	-78,855,447	90,586,603	11,731,156
Surplus/(deficit) for the period	48,030,981		48,030,981
Assets Purchased from Capital Grants		21,790,470	21,790,470
Balance as at 30 JUNE 2018	-30,824,466	112,377,073	81,552,607

MICRO AND SMALL ENTERPRISES AUTHORITY

FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2018

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2018

	Note	2017-18	2016-17
Surplus /(Deficit)from operating activities		48,030,981	-39,435,572
Adjustments for:			
Depreciation	12	12,006,940	21,900,048
Provision for Audit Fees		<u>450,000</u>	0
		60,487,920	(17,535,524)
Adjustments for working capital changes			
Increase (Decrease) in Payables		21,582,201	(8,403,694)
(Increase) decrease in Receivables		<u>5,251,982</u>	<u>24,253,899</u>
Net cash generated from operating		26,834,183	15,850,205
Cash flow from investing Activities			
Purchase of fixed Assets	12	<u>-</u> <u>21,790,463</u>	
Net cash inflow from investing Activities		21,790,463	
Financing Activities			
Capital Grants Expenditure			
Net cash flow from Financing activities			
Decrease in cash & cash equivalent		65,531,310	-1,685,319
Cash & Cash Start of the year		<u>5,411,951</u>	<u>7,097,270</u>
Cash & Cash equivalent Year end	9	70,943,261	5,411,951

MICRO AND SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2018

XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL

	Original Estimates	Adjustments	Final Budget	Actual on Comparison basis	Performance difference
	2017-2018	2017-2018	2017-2018	2017-2018	2017-2018
	Kshs	Kshs	Kshs	Kshs	Kshs
REVENUE					
Recurrent Grant	75,833,821	(18,958,456)	56,875,365	56,875,365	0
Development Grant	150,000,000	(123,250,000)	26,750,000	26,750,000	0
Grant from IDA	574,000,000	(434,000,000)	140,000,000	142,663,921	-2,663,921
Fees, Levies or Charges	2,500,000	0	2,500,000	1,490,120	-1,009,880
Total Revenue	802,333,821	-576,208,456	226,125,365	227,779,406	-3,673,801
EXPENSES					
KYEOP Operating Expenses	574,000,000	(434,000,000)	140,000,000	64,584,844	75,415,156
Personnel Emoluments	10,900,000	(4,400,000)	6,500,000	5,364,224	1,135,776
Domestic travel	11,000,000	0	11,000,000	10,054,975	945,025
Printing supplies and advertisement	2,400,000	0	2,400,000	1,589,500	810,500
Utilities	2,900,000	0	2,900,000	105,141	2,794,859
Communication Supply Services	7,000,000	0	7,000,000	2,385,096	4,614,904
Board Expenses	5,000,000	4,400,000	9,400,000	11,718,201	(2,318,201)
Rent	14,500,000	0	14,500,000	11,923,106	2,576,894
Training Expenses (MSEs)	1,000,000	0	1,000,000	3,464,093	(2,464,093)
Hospitality Supplies & Services	4,000,000	0	4,000,000	1,808,961	2,191,039
General Office Supplies	4,000,000	0	4,000,000	5,606,713	(1,606,713)
Routine Maintenance	3,000,000	0	3,000,000	4,799,864	(1,799,864)
Jua Kali Nguvu Kazi/Marketing	18,721,250	0	18,721,250	19,129,580	(408,330)
MSE Worksites And CIDCs	8,028,750	0	8,028,750	2,856,839	5,171,911
Refined fuel and Lubricants	2,600,000	0	2,600,000	1,969,950	630,050
Contracted guards & cleaning	3,000,000	0	3,000,000	6,785,564	(3,785,564)

MICRO AND SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2018

NOTES

1. The operating expenses on KYEOP was so low compared to the allocated funds because the project was funded two months to the close of the financial year hence the under absorption of Ksh.75,415,156. This being a Youth project, the political climate was unfavourable being a year of contested election

2. The budget allocation on Utilities was for our field offices. During the period under review the Authority closed some offices where officers exited or were transferred eg. Mandera, Wajir, Bomet, Busia, West pokot and Homabay

3. The under- utilisation under Communication Supplies, Rent, MSE Worksites and CIDCs was as a result of lack of liquidity since the exchequer for the fourth Quarter was released late to the closure of the financial year hence incurring pending bills

MICRO AND SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2018

XVI. NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance and basis of preparation

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

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

2. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Fees, taxes and fines

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

Transfers from other government entities

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

i) Revenue from exchange transactions

Rendering of services

The authority recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Sale of goods

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

MICRO AND SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2018

Notes to the financial statements Cont'd

Interest income

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

b) Budget information

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the authority. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or authority 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

Withholding Tax

Withholding Tax relates to Value Added Tax (VAT) being held by the Entity at 6% from the suppliers, and later submitted to Kenya Revenue Authority (KRA) by 20th of every following month. It is recognized as a liability, and offset in Entity's books of accounts when remitted to KRA.

Sales tax

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

- 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
- 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.

d) 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 authority recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

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FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2018

Notes to the financial statements Cont'd

Depreciation

Depreciation is calculated to write off the cost or valuation of property and equipment in equal annual instalments to the following rates;

Motor vehicle	25%
Computers	33 1/3%
Office Equipment & furniture's	12.5%

e) 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.

Amortization is calculated on straight line basis over 3 years.

f) Research and development costs

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

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

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.

g) Financial instruments

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 Authority determines the classification of its financial assets at initial recognition.

MICRO AND SMALL ENTERPRISES AUTHORITY
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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.

h) Impairment of financial assets

The Authority assesses at each reporting date whether there is objective evidence that a financial asset or a authority of financial assets is impaired. A financial asset or a authority of financial assets 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 authority of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a authority of debtors 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)

i) 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 Authority determines the classification of its financial liabilities at initial recognition.

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

Loans and borrowing

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

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.

j) Provisions

Provisions are recognized when the Authority 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.

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

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

Contingent liabilities

The Authority 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.

k) Nature and purpose of reserves

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

l) Changes in accounting policies and estimates

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

n) 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.

p) Related parties

The Authority regards a related party as a person or an authority with the ability to exert control individually or jointly, or to exercise significant influence over the Authority, or vice versa. Members of key management are regarded as related parties and comprise the directors, Chief Executive officer, Head of Departments and senior managers.

q) 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. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

MICRO AND SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2018

r) Comparative figures

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

s) Significant judgments and sources of estimation uncertainty

The preparation of the Authority'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.

i) Critical accounting judgments in applying the entity's accounting policies

Impairment losses on trade and other receivables

The authority reviews its trade and other receivables to assess impairment regularly. In determining whether an impairment loss should be recognised through profit or loss, the company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the receivables, before a decrease can be identified. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers or local economic conditions that correlate with defaults on assets in the company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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 Authority 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 the control of the Authority. Such changes are reflected in the assumptions when they occur.

i) Key sources of estimation uncertainty

Impairment of assets

At the end of each reporting period, the authority reviews the carrying amount of its assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment (if any).

Plant and equipment

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Critical estimates are made by the directors in determining depreciation rates for property, plant and equipment. The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

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

Fair value estimation – financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, judgment is required in establishing fair values. Judgment includes the consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

t) 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, 2018.

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Notes to the financial statements (Continued)

1. Transfers from other governments	2017-18	2016-17
Unconditional grants		
Recurrent	64,904,115	75,833,821
Development	26,750,000	102,500,000
Conditional grants	-	
State depart. Of Industry	223,707,963	11,491,000
State depart. Of Industry	-	81,044,042
Total government grants and subsidies	234,318,036	189,824,821

	2017-18	2016-17
2. Rendering of services	Shs	Shs
Fees, Levies or Charges	1,477,120	1,752,423
Total revenue from the rendering of services	1,477,120	1,752,423

	2017-18	2016-17
	Shs	Shs
3. Goods and Services		
Electricity	105,141	1,219,876
Water		-
Total good and services	105,141	1,219,876

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	2017-18	2016-17
4. Employee costs		
Salaries and wages	6,798,012	7,629,484
Employee related costs - contributions to pensions and medical aids	31,000	-
KYEOP Remuneratons	4,467,280	
Employee costs	11,296,292	7,629,484

	2017-18	2016-17
	Shs	Shs
5. Remuneration of directors		
Chairman's Honoraria	504,000	329,173
Directors emoluments	5,189,656	5,820,283
Other allowances	5,114,060	5,239,742
Total director emoluments	10,807,715	11,389,198

	2017-18	2016-17
	Shs	Shs
6. Depreciation and amortization expense		
Office Equipment & Furniture	2,214,364	3,238,783
Computers	5,599,601	8,195,348
Motor vehicles	3,038,375	8,195,348
Fittings / Refurbishment	1,154,599	2,214,364
Total depreciation and amortization	12,006,940	21,900,048

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	2017-18	2016-17
7. Repairs and maintenance		
Property	-	-
Investment property – earning rentals	-	-
Equipment	68,200	-
Vehicles	732,133	4,799,864
Total repairs and maintenance	800,333	4,799,864

	2017-18	2016-17
	Shs	Shs
8. General expenses		
KYEOP Exp	82,400,466	6,395,316
Communication	2,385,096	7,736,399
Domestic Travel	8,604,976	15,082,127
Foreign Travel	-	1,082,466
Provision for Audit fees	450,000	
Printing Advertising	1,589,500	2,276,278
Trade Shows and Exhibitions	9,434,052	
Rent	11,568,148	13,854,969
Training -STAFF	3,333,348	11,839,205
Training-MSE	88,745	4,992,946
Hospitality	2,134,712	7,913,222
Legal expenses	531,000	
Office General Supplies	9,426,743	8,923,982
Contracted Guards & Cleaning Se	3,828,820	7,774,685
Worksite and CIDC	2,856,839	54,145,663
Fuel	563,000	1,969,950
Marketing MSE	358,750	34,972,222
Develop MSE Coordination and Har	4,234,040	
Contracted Professional Services		4,833,132
Nguvu Kazi Exhibitions	8,767,922	
Research	65,000	
Bank Charges	126,597	281,784
Total general expenses	152,747,754	184,074,346

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FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2018

	2017-18	2016-17
9. Cash and cash equivalents		
Current account	KCB GoK: Ksh 8,892,490 NBK GoK: Kshs 586,841 KCB Project: Kshs 61,463,930	5,411,951
Total cash and cash equivalents	70,943,261	5,411,951

	2017-18	2016-17
	Shs	Shs
10 Receivables from exchange transactions		
Current receivables		
Outstanding Imprests	2,370,002	5,146,770
Ministry of Industry Trade & Co-op-4 Qtr	8,028,750	-
Total receivables	10,398,752	5,146,770

	2017-18	2016-17
	Shs	Shs
11. Payables exchange transactions		
Current Payables		
Outstanding Bills	54,521,151	37,629,699
Total receivables	54,521,151	37,629,699

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FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2018

12. Fixed Asset Movement Schedule

	Office Equipment & Furniture	Computers	Motor vehicles	Fittings / Refurbishment	Total
Cost	Shs	Shs	Shs	Shs	Shs
At 1 July 2015	8,870,180	17,533,500	27,017,531	14,778,864	68,200,075
Additions	17,040,081	2,134,000	14,040,983	-	33,215,064
Disposals	-	-	-	-	0
At 30th June 2016	25,910,261	19,667,500	41,058,514	14,778,864	101,415,139
Additions	-	1,557,800	-	-	1,557,800
Disposals	-	-	-	-	0
At 30th June 2017	25,910,261	21,225,300	41,058,514	14,778,864	102,972,939
At 1st July 2017	25,910,261	21,225,300	41,058,514	14,778,864	102,972,939
Additions	8,822,870	12,967,600	0	0	21,790,470
Disposals	0				
At 30th June 2018	34,733,131	34,192,900	41,058,514	14,778,864	124,763,409
Depreciation					
At 1 July 2016	1,717,782	7,846,957	8,375,758	1,847,354	19,787,851
Depreciation	3,238,783	3,939,787	10,264,628	1,847,358	19,290,556
At 30 June 2016	4,956,565	11,786,744	18,640,386	3,694,712	39,078,407
Depreciation	3,238,783	3,145,871	10,264,629	1,847,358	18,496,641
At 30th June 2017	8,195,348	14,932,615	28,905,015	5,542,070	57,575,048
At 1st July 2017	8,195,348	14,932,615	28,905,015	5,542,070	57,575,048
Depreciation	3,045,341	5,094,791	2,765,211	1,101,597	12,006,940
At 30th June 2018	11,240,689	20,027,406	31,670,226	6,643,667	69,581,988
Net Book Values					
At 30th June 2018	23,492,442	14,165,494	9,388,288	8,135,197	55,181,414

13. Financial Risk Management

Exposure to currency, commodity, interest rate, liquidity and credit risk arises in the normal course of the authority's operations. This note presents information about the authority's exposure to each of the above risks, policies and processes for measuring and managing risk, and the authority's management of capital. Further quantitative disclosures are included throughout these financial statements.

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Fair values

Set out below, is a comparison by class of the carrying amounts and fair value of the authority's financial instruments.

Financial Assets	Carrying amount	Fair value
	KSh	KSh
Receivables from non-exchange transactions	10,398,752	10,398,752
Cash and cash equivalents	<u>70,943,591</u>	<u>70,943,591</u>
Financial Liabilities		
Trade payables from exchange transactions	<u>54,521,151</u>	<u>54,521,151</u>
	<u>54,521,151</u>	<u>54,521,151</u>

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Credit risk

Credit risk is the risk of financial loss to the authority if customers or counterparties to financial instruments fail to meet their contractual obligations. The authority's credit risk is primarily attributable to its receivables and cash and cash equivalents. The company's management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors before extending credit. The carrying amount of financial assets represents the maximum credit exposure. The credit risk on liquid funds with financial institutions is low, because the counter parties are banks with high credit-ratings. The maximum exposure to credit risk as at 30 Jun 2017 was:

	Fully performing Kshs	Past due Kshs	Impaired Kshs	Total Kshs
Non exchange receivables	-	-	-	-
Cash and cash equivalents	70,943,591	-	-	70,943,591
Maximum exposure to credit risk	<u>70,943,591</u>	-	-	<u>70,943,591</u>
	=====	=====	=====	=====

The average credit period on services rendered is 90 days from date of invoice. Debts above 90 days old are classified as past due. The authority provides fully for all receivables outstanding over

MICRO AND SMALL ENTERPRISES AUTHORITY

FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2018

365 days where there is no evidence of expected recovery. The clients under the fully performing category are paying their debts as they continue dealing with the authority. The default rate is low.

Credit quality

Credit quality is assessed risk of default attached to counterparties to which the authority extends credit and also those parties with whom the authority invests. As such, the credit quality assessed extends to the customers, donors and banks of the authority. For financial statement purposes, the investments and balances with banks are limited to the receivable and cash and cash equivalents line items in the statement of financial position. The authority determines credit quality of the banks from past dealings with them and from information readily available from the regulatory authority, the Central Bank of Kenya.

The receivable held at the end of the period related to approved grants from the CBK that are only recognised when a firm commitment from the government has been received. The government is considered a risk free debtor.

Receivables

The authority does not extend credit to external parties. All services performed by the authority are rendered upon payment by the customers. The receivables from non-exchange transactions relate to grant receivables from the government of Kenya. The authority's maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial performance

Cash and cash equivalents

The authority limits its exposure to credit risk by investing cash and cash equivalents with only reputable financial institutions that have a sound credit rating. Consequently, the authority does not consider there to be any significant exposure to credit risk.

Liquidity risk

Liquidity risk is the risk of the authority not being able to meet its obligations as they fall due. The authority's approach to managing liquidity risk is to ensure that sufficient liquidity is available to meet its liabilities when due, without incurring unacceptable losses or risking damage to the authority's reputation. Prudent liquidity risk management includes maintaining sufficient cash to meet the authority's obligations.

The table below analyses the authority's financial liabilities into relevant maturity groupings based on the remaining period at the end of reporting period to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts, as the impact of discounting is not significant.

Market risk

	Less than 1 month Kshs	Between 1-3 months Kshs	Over 5 months Kshs	Total Kshs
At 30 June 2018				
Trade payables from exchange transactions	-	54,521,151	-	54,521,151
	-	54,521,151	-	54,521,151

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FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2018

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Market risk is the risk of changes in market prices, such as foreign-exchange rates and interest rates, affecting the authority's income or the value of its financial instrument holdings. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on the risk

- (i) **Price risk**
The authority does not hold investments that would be subject to price risk; hence this risk is not relevant.
- (ii) **Interest rate risk**
The authority does not hold any interest bearing liabilities or assets; hence this risk is not relevant.
- (ii) **Foreign currency risk**
The authority did not have any foreign currency denominated transaction during the year.

Capital risk management policies

The primary objective of managing the authority's capital is to ensure that there is sufficient cash available to support the Group's funding requirements, including capital expenditure, to ensure that the authority remains financially sound. The authority monitors capital using a gearing ratio, which is net debt, divided by total capital, plus net debt.

As at the end of the year, the authority had no debt. The capital structure of the authority consists only of a general fund. The gearing ratio of the authority is therefore 0%.

14. Taxation.

The authority is a government agency and therefore does not pay corporate tax.

15. Events after the reporting period

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

16. Reporting Currency

The financial statements are presented in Kenya shillings.

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FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2018

XVII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor for the financial year 2014/15, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue/Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.	Property Plant and Equipment Property, plant and equipment balance of Kshs. 51,426,179 as at 30 June 2015 excludes the value of the 154 industrial development centres.	The Management has engaged the Ministry to finalise delinking report and fastrack full delinking of the Authority's Assets including CIDCs. Further the Authority plans to engage a valuer in the 2019/2020 budget	CEO Board	Not resolved	30th June 2020.
2.	Trade and Other Payables Trade and other payables balance of Kshs. 65,847,793 as at June 2015 constitute an amount of Kshs. 8,308,553 being trade creditors while the balance of Kshs. 57,539,240 relates to outstanding security dues, balance of which remained outstanding after clearance of Kshs. 47,460,790 out of the total Kshs. 105m inherited from the parent	The Authority has cleared all the pending bills relating to the security services for Constituency Industrial Development Centres(CIDCs)	CEO Board	Resolved	

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FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2018

	Ministry under unclear circumstances.				
Other Matters					
3.	<p>Payment Security Bills of</p> <p>The Authority made payments of Kshs.50 million before the contract was signed by the two parties for transferring CIDCs to MSEA to security services for the existing contracts up to 3/12/2014 before handing over but MSEA went ahead and paid for it when it was not even budgeted for.</p>	<p>The Authority has cleared all the pending bills relating to the security services for Constituency Industrial Development Centres(CIDCs)</p>	<p>CEO Board</p>	<p>Resolved</p>	
4.	<p>Ineffective Internal Controls</p> <p>The Authority does not have an internal audit section as an independent function designed to set up and implement effective internal control systems as far as the organization operations are concerned.</p>	<p>The Authority has made appropriate approvals for recruitments of staff will begin early of the F/Y 2019/2020</p>	<p>CEO Board</p>	<p>Not Resolved</p>	<p>30th June 2020.</p>

