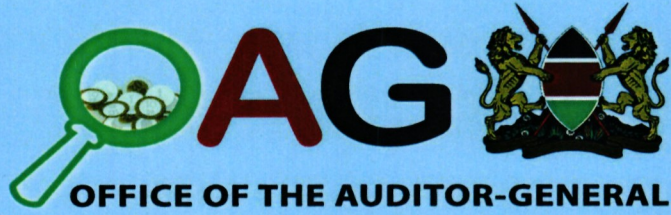



REPUBLIC OF KENYA



*Enhancing Accountability*

 <b>THE NATIONAL ASSEMBLY PAPERS LAID</b>	
<b>DATE:</b> 24 FEB 2021	<b>DAY:</b> Thurs
<b>TABLED BY:</b>	LOM
<b>CLERK-AT THE-TABLE:</b>	Mainah Wanjiku

**REPORT**

PARLIAMENT  
OF KENYA  
LIBRARY

**OF**

**THE AUDITOR-GENERAL**

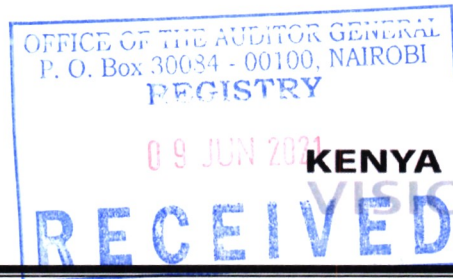
**ON**

**KENYA INDUSTRIAL RESEARCH AND  
DEVELOPMENT INSTITUTE**

**FOR THE YEAR ENDED  
30 JUNE, 2020**



**KIRDI**  
*Your Industrial Technology Partner...*



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**KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
30<sup>TH</sup> JUNE 2020**

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

**KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)  
POPO ROAD, NAIROBI SOUTH C, P.O. BOX 30650 - 00100, NAIROBI, KENYA  
TELEPHONE: 0202388216/0202393466. Website: [www.kirdi.go.ke](http://www.kirdi.go.ke)  
Email: [dir@kirdi.go.ke](mailto:dir@kirdi.go.ke)**

## **NAMES AND ACRONYMS**

<b>A in A</b>	Appropriation in Aid
<b>G.O.K</b>	Government of Kenya
<b>MOITC</b>	Ministry of Industry, Trade and Co-operatives
<b>R&amp;D</b>	Research and Development
<b>R.T.I.</b>	Research, Technology and Innovation
<b>UNIDO</b>	United Nations Industrial Development Organization

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## KEY INSTITUTE INFORMATION AND MANAGEMENT

### (a) Background information

The Kenya Industrial Research and Development Institute (KIRDI) is a statutory research organization established under the Science and Technology Act Cap 250, 1979 (now repealed and replaced by the Science, Technology and Innovation Act 2013). KIRDI is the country's principal national institution responsible for industrial research and development and domiciled under the Ministry of Industry, Trade and Co-operatives. It is mandated to carry out Research and Development in industrial and allied technologies including, Civil Engineering, Mechanical Engineering, Textile Technology, Electrical Engineering, Mining, Power Resources, Chemical Engineering, Industrial Chemistry, Food Technology, Ceramics, Information and Communications Technologies (ICT) and Ceramics. The Institute's mission is to undertake Industrial Research, Technology and Innovation and disseminate findings that will have a positive impact on national development. As well, its vision is to be a Centre of Excellence in Industrial Research, Technology & Innovation.

### (b) Principal Activities

The principal activity of the Institute is to undertake Industrial Research Technology and Innovation and disseminate findings that will have a positive impact on the national development.

### (c) Key Management

The Institute's day-to-day management is under the following key organs:

- The Office of Director and Chief Executive Officer
- Research Technology and Innovation Department
- Finance and Administration Department
- KIRDI Enterprise Services Department
- Corporate Services Department
- Legal services & Corporate Secretary

### (d) Fiduciary Management

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2020 and who had direct fiduciary responsibility were:

S.N	Designation	Name
1	Director / Chief Executive Officer	Prof. David K. Rotich Tuigong
2	Deputy Director, Research Technology and Innovation	Dr. Martha Induli
3	Head KIRDI Enterprise Services & Chief Research Scientist	Dr. Arthur Onyuka
4	Deputy Director - Corporate Services	Mr. Nicodemus Mutinda
5	Assistant Director- Finance	Mr. Stanley Abonyo
6	Assistant Director - Human Resource and Administration	Mr. Jairus Ombui
7	Principal Internal Auditor	Mr. Thomas Kazungu

**(e) Fiduciary Oversight Arrangements**

The Board works through various sub-committees which include; The Research Technology and Innovation Committee, Finance and Special Projects Committee, Risk and Audit Committee, Human Resources and Administration Committee and Management Committee.

**Research Technology and innovation Committee**

This committee consisted of five members. The committee was chaired by Eng. Andrew G. Muigai. It had a responsibility to oversee the Institute's research project plans, Technology and Research. It also reviews projects proposals. Other members of the committee include Prof. Christopher G. Nyagah, Dr. David Njubi, Ms. Nancy Muya, Dr. Kaberia E. Limukii and Prof. David K. Rotich Tuigong'.

**Finance and Special Projects Committee**

This committee consisted of five members. The committee was chaired by Ms. Ophelia Nyawira. This Committee had oversight on all financial issues including budgets, financial reporting process and controls and procurement. It also reviews proposals for capital developments. In addition the committee appraises capital budgets for recommendation to the Board. Other members of the committee include Eng. Andrew Muigai, Ms. Nancy Muya, Dr. Kaberia E. Limukii, Maj. Rtd Hussein Abshiro Herin and Prof. David K. Rotich Tuigong'.

**Risk and Audit Committee**

This committee consisted of five members. The committee was chaired by Prof. Christopher G. Nyagah. It had an oversight responsibility of reviewing, assessing adequacy and monitoring of internal controls, risk

management and corporate governance processes; examining internal and external audit reports and recommendations therein. Other members of the committee include Mr. Martin S. O. Gumo, Dr. David Njubi, Dr. Stephen K. Mairori, and Ms. Rahab W. Lanoi.

**Human Resources and Administration Committee**

This committee consisted of five members. The committee was chaired by Dr. Stephen K. Mairori. It was responsible for human resource matters including recruitment, succession management, monitoring and appraising the performance of senior management, including the Managing Director, review of the HR policies, review of general administrative and procurement policies and oversight of corporate communication policies. Other members of the Committee include Mr. Martin S. O. Gumo, Maj. Rtd Hussein Abshiro Herin, Ms. Ophelia Nyawira, Ms. Rahab W. Lanoi and Prof. David K. Rotich Tuigong’.

**(f) Institute’s Headquarters**

P.O. Box 30650 00100  
KIRDI South C Campus  
Popo Road, off Mombasa Rd  
**NAIROBI, KENYA**

**(g) Institute’s Contacts**

Telephone: (254) 0202388216  
E-mail: [dir@kirdi.go.ke](mailto:dir@kirdi.go.ke) / [directorkirdi@gmail.com](mailto:directorkirdi@gmail.com)  
Website: [www.kirdi.go.ke](http://www.kirdi.go.ke)

**(h) Institute ‘s Bankers**


1. National Bank of Kenya  
KEBS SOUTH C, Popo Road  
**NAIROBI, KENYA**

2. Absa Bank of Kenya  
Bunyala Road Branch  
**NAIROBI, KENYA**

**(i) Independent Auditors**

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




**THE BOARD OF DIRECTORS**

DIRECTOR	PROFILE
 <p><b>Hon. Lelelit Lati</b> Chairperson Board of Directors</p>	<p><i>Appointed on 6<sup>th</sup> June, 2018 for 3 years term</i></p> <p><b>HON. LELELIT LATI (41)</b> holds an MBA from Brandeis University Massachusetts, USA; BSc. in Economics and Mathematics from St. Lawrence University, New York, USA. Previously a member of Parliament at the Kenya National Assembly (2013-2017) for Samburu West; Portfolio Manager, Sovereign Wealth at State Street Global Advisors, Boston MA USA (2006-2010).</p>
 <p><b>Dr. David Njubi</b> Alternate Member of the Board of Directors.</p>	<p><i>Alternate to the Executive Secretary, National Commission for Science, Technology and Innovation (NACOSTI)</i></p> <p><b>DR. NJUBI (57)</b> holds a Ph.D. (Animal Science), MSc. (Animal Breeding Genetics), MSc in Information Systems and BSc. in Agriculture from the University of Nairobi. He has several years of experience in Research and Development activities supporting sustainable smallholder programmes. He has previously worked for various organizations including; ILRI, ILCA, KARI and has authored and co-authored several research papers relevant to national development.</p> <p>He is currently Chief Scientist &amp; Head of Agriculture &amp; Natural Resource Department at the National Commission for Science Technology and Innovation (NACOSTI). He is involved in Policy advice, promotion and Coordination of Science, Technology &amp; Innovation.</p>
 <p><b>Prof. Christopher G. Nyagah</b> Member of the Board of Directors.</p>	<p><i>Appointed on 17<sup>th</sup> April 2015 and served for three years. His term ended on 16<sup>th</sup> April, 2018 and was reappointed on 21<sup>st</sup> September 2018</i></p> <p><b>PROF. NYAGAH (71)</b> holds a PhD in Chemistry, MSc. and B. Ed (Science) Hons from the University of Nairobi. He has more than 40 years of experience in Research, University Teaching and Management and has published many articles in referred journals. Prof. Nyagah is currently a Full Professor of Chemistry at Jomo Kenyatta University of Agriculture and Technology.</p>



	<p><i>Appointed on 9<sup>th</sup> November, 2015 for a 3 years term which ended on 8<sup>th</sup> November, 2018 and was reappointed on 3<sup>rd</sup> May 2019</i></p> <p><b>MS. NJERU (46)</b> is an Accredited Certified Executive Leadership Coach (CELC) and holds an MSc. Marketing from the University of Wales and is pursuing a Masters in Public Policy and Administration at Kenyatta University. She holds a B.Com Degree from Catholic University of Eastern Africa and a Post Graduate Diploma in Marketing from Chartered Institute of Marketing UK. Ms. Njeru is a Member of Institute of Directors (Kenya), International Coach Federation and Chartered Institute of Marketing UK. She has over Fifteen (15) years' experience in Management having served in various leadership and managerial positions in both public and private sectors. She has worked for Sealed Air Corporation as Business Director, Eastern and Southern Africa and currently works with Becton Dickinson, Leading Global Health &amp; Public Private Partnerships in Eastern Europe, Middle East and Africa.</p>
	<p><i>Appointed on 31<sup>st</sup> May 2016 for a 3 years term which ended on 30<sup>th</sup> May 2019 and was reappointed on 30<sup>th</sup> May 2019</i></p> <p><b>ENG. MUIGAI (56)</b> holds a BSc. Degree in Civil Engineering from the University of Nairobi, Post Graduate Diploma in Procurement Management from Turin Italy and Post Graduate Certificate in Project Planning Appraisal &amp; Financing from University of Bradford.</p> <p>He is Registered with the Engineers Registration Board of Kenya as well as a Corporate Member of Institute of Engineers of Kenya; he is also a Member of the Institute of Directors (Kenya). He is an entrepreneur, engineer and consultant with over thirty (30) years of experience in Civil Engineering &amp; Project Management Consultancy; and over twenty five (25) years of experience in Leadership and Management gained in both the public and private sectors.</p> <p>He is currently the Executive Director Kunene Partners Limited - an advisory and fund raising firm - in special situation investments in sectors that include but not limited to real estate, energy, agriculture and infrastructure</p>

**Ms. Nyawira Ophelia Njeru**  
 Member of the Board of Directors



**Eng. Andrew Gichamba Muigai**  
 Member of the Board of Directors

 <p><b>Ms. Nancy Muya</b>          Alternate Member of the Board of Directors</p>	<p><i>Alternate to the Principal Secretary, Ministry of Industry, Trade and Co-operatives, State Department of Industrialization</i></p> <p><b>MS. MUYA (58)</b> is pursuing MSc (Entrepreneurship) degree at Jomo Kenyatta University of Agriculture and Technology. Holds BSc. (Maths/Chem) degree from Kenyatta University. She has over 25 years of experience in civil service, offering her expertise in industrial development while in the Ministry.</p> <p>She has undergone several short term training programmes during her work experience in industrial development, Policy formulation, processing technologies, management and leadership, locally and internationally. She has served in various boards.</p>
 <p><b>Mr. Martin S. Gumo</b>          Alternate Member of the Board of Directors</p>	<p><i>Alternate to the Principal Secretary, Ministry of Finance and National Treasury</i></p> <p><b>MR. GUMO (66)</b> holds a Master of Science Degree in Finance from the University of Nairobi, Bachelor of Commerce (Accounting option) Degree and He is a qualified Accountant with CPA (K) and a member of ICPAK.</p> <p>He is a career civil servant with vast experience in management and Public Finance having worked in the Public Service for over 35 years.</p> <p>He is currently the Deputy Director, Macro and Fiscal Affairs in the National Treasury. Previously, he worked with the Ministry of Finance (now the National Treasury) and the Kenya Revenue Authority.</p>
 <p><b>Maj. Rtd Hussein Abshiro Herin</b>          Member of the Board of Directors</p>	<p><i>Appointed Director on 3<sup>rd</sup> May 2019</i></p> <p><b>MAJ. RTD. ABSHIRO HERIN (47)</b> is a retired Military/Airforce Officer with an illustrious career spanning over two and a half decades. Currently pursuing MSc. Procurement and Contract Management at JKUAT. Holds BSc. Business Management (Human Resource option) and Military Advance Intelligence Affiliation Courses both local and overseas. He has thorough knowledge of National Security and Security implication.</p>

 <p><b>Dr. Kaberia Evans Limukii</b> Member of the Board of Directors.</p>	<p><b><i>Appointed Director on 3<sup>rd</sup> May 2019</i></b></p> <p><b>Dr. Limukii (49)</b> holds PhD (Administration &amp; Policy) from Moi university, Post- Doctoral Higher National diploma in Human resource management from Shaberere Technical Training Institute, M.E.D (Planning and Economics), Kenyatta University, B.E.D (Arts), Kenyatta University and he is I.T. compliant. He is widely published in referred journals, an expert in management and policy. He has served in several senior capacities in the university, County Government and several management boards. He is a member of the Education management society of Kenya, Life Member red cross Kenya and a member of the Institute Resource Management (IHRM). He has attended Seminars and workshops touching on Education, Democracy, Procurement and Administration.</p>
 <p><b>Ms. Rahab W. Lanoi</b> Member of the Board of Directors</p>	<p><b><i>Appointed Director on 3<sup>rd</sup> May 2019</i></b></p> <p><b>MS. LANOI (45)</b> is currently pursuing Ph.D (Strategic Management at Kenyatta University, She has Master's degree in Business administration (Strategic Management) from Kenyatta University, BSC Computer information Systems, Advance Diploma in information Technology. She has worked as a Strategic consultant/Digital Marketing Manager at Herms solutions, a lecturer at CUEA department of computer science and school of business, she has also worked at Air Kenya express at various position i.e Operation shift manager ,Marketing account manager and system administrator strategic planning manager. She has attended various training and seminars related to her career.</p>
 <p><b>Dr. Stephen Kiptoem Mairori</b> Member of the Board of Directors</p>	<p><b><i>Appointed Director on 21<sup>st</sup> September, 2018 for a 3 years term</i></b></p> <p><b>DR. MAIRORI (51)</b> Holds a Bachelor's Degrees, Masters of Divinity with a focus on Leadership, Doctor of Ministry. He was a member of the County Government of Trans Nzoia Public Service Board selection panel in 2013. Served as a Board Member at NACADA and Kenya Institute of Public Policy (KIPPR). Has served as a Regional Coordinator Global Leadership Summit, Executive Director of ICM Kenya and Equip National Director.</p>

 <p><b>Mr. James K. Wang'ombe</b>          Alternate Member of the Board of Directors</p>	<p><i>Alternate to the Inspector General, Inspectorate of State Corporations, Office of the Deputy President.</i></p> <p><b>MR. WANG'OMBE (56)</b> is an Economist by Profession. He Holds an MBA and is a Member of Information Systems Audit and Control Association (ISACA).</p> <p>He has over 28 years of Experience in the Public Service having served in the Planning and Oversight Sectors.</p> <p>He is currently an Inspector with the Inspectorate of State Corporations.</p>
 <p><b>Prof. David K. RotichTuigong</b>          Director / Secretary to the Board</p>	<p><i>Appointed Director / CEO on 4<sup>th</sup> June 2018</i></p> <p><b>PROF. TUIGONG (58)</b> holds a Doctorate of Engineering (Textile Engineering) degree from Donghua University (2002-2006), Shanghai, China; Master of Engineering degree in Textile Technology from Ghent University (1996-1998), Belgium. A Bachelor of Technology (Textile Engineering) from Bharathiar University, India. Was Previously Deputy Vice Chancellor - Finance at Moi University (2014-2016) and Managing Director, Rivatex East Africa Ltd (2007-2014).He has several publications to his name and is a member of Kenya Institute of Management; International Society of Engineers Education; Registered Graduate Engineer; Member of the Textiles Institute - Manchester, UK.</p>

**MANAGEMENT TEAM 2019/2020**

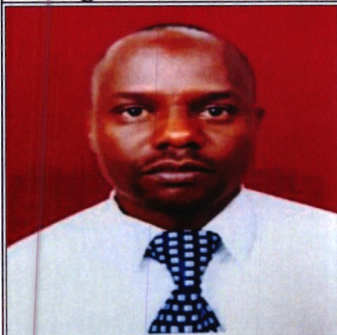
<b>MEMBER</b>	<b>PROFILE</b>
 <p><b>Prof. David K. Rotich Tuigong</b>                      Director / Secretary to the Board</p>	<p><b>PROF. TUIGONG (58)</b> holds a Doctorate of Engineering (Textile Engineering) degree from Donghua University (2002-2006), Shanghai, China; Master of Engineering degree in Textile Technology from Ghent University (1996-1998), Belgium. A Bachelor of Technology (Textile Engineering) from Bharathiar University, India. Was Previously Deputy Vice Chancellor - Finance at Moi University (2014-2016) and Managing Director, Rivatex East Africa Ltd (2007-2014).</p> <p>He has several publications to his name and is a member of Kenya Institute of Management; Member: International Society of Engineers Education; Registered Graduate Engineer; Member of The Textiles Institute - Manchester, UK.</p>
 <p><b>Dr. Arthur Steven Onyuka</b>                      Deputy Director Technology Transfer and Extension Services</p>	<p><b>Dr. Onyuka (56)</b> holds a PhD degree in Leather and Waste Management (2006 - 2010) and BSc (Hons) in Leather Technology (2001 - 2004) from the University of Northampton (UK), Leadership Development Certificate (2010) from Institute of Leadership and Management (ILM), UK, and Senior Management Course (2020) from Kenya School of Government (Baringo).</p> <p>He has previously been the National Designated Entity (NDE) for Climate Technology Centre &amp; Network (CTCN). He is a Fellow of the Society of Leather Technologists and Chemists (UK) and a member of the Chartered Institute of Waste Management (UK).</p> <p>He has done a number of publications in peer review journals and has over 20 years of experience in research, industry, academia and management in the areas of leather technology, climate change and environment management.</p>



**Ms. Florence M. K. Mwikya**  
 Corporation Secretary & Head  
 of Legal Services

**MS. MWIKYA (42)** holds a Master of Laws Degree (LLM) from the University of Nairobi, a Bachelor of Laws Degree (LLB) from the same University and a Post Graduate Diploma in Law from the Kenya School of Law. She is a Commissioner for Oaths and Notary Public.

Florence is a Certified Public Secretary of Kenya (CPSK) and a Member of the Institute of Certified Public Secretaries of Kenya (ICPSK) and the Law Society of Kenya (LSK) in good professional standing. Florence has a wealth of experience both Legal and Corporation Secretarial matters both from Private and Public Sector.



**Mr. Nicodemus Mutinda**  
 Deputy Director, Corporate  
 Services

**MR. MUTINDA (42)** holds a Master's of Business Administration (MBA) in Strategic Management from Kenyatta University, Bachelor of Technology in Textile Engineering from Moi University and is a certified Quality Management Systems auditor.

He has more than 15 years of experience in Business Processes Re-engineering, Product Development, Quality Management Systems, Performance Management and Project Management.




He is responsible for Planning, Strategy, Monitoring and Evaluation, Quality Assurance, Marketing and Corporate Communication functions within the Institute.



**Mr. Jairus Ombui**  
 Assistant Director, Human  
 Resource & Administration

**MR. OMBUI (59)** holds an MBA from the Management University of Africa and a Bachelor of Commerce Degree (Business Administration) from University of Poona, India. He is a member of the Institute of Human Resource Management, Kenya (IHRM), Kenya Institute of Management (KIM) and has over 20 years' experience in the Public Sector.

He has undergone several short term training programmes during his work experience e.g. Senior Management Course, Brainstorm Management, Corporate Governance, Strategic Project Management, Effective Supervisory Skills, Corruption Risk Assessment among others.

 <p><b>Mr. Stanley Abonyo</b> Assistant Director-Finance</p>	<p><b>MR. ABONYO (43)</b> holds a Masters of accounting and Business Statistics degree from Rajasthan v. University India and Bachelor of Commerce (Accounting Option) degree from the same University. He is a qualified accountant with CPA (K) and a member of Institute of Certified Public Accountants (ICPAK).</p> <p>He has over fifteen (15) years' experience in finance and Accounting gained in Public and private sector. He has taught finance and accounting units in several public universities in Kenya as a part time Lecturer.</p>
 <p><b>Mr. Thomas S. Kazungu</b> Principal Internal Auditor</p>	<p><b>MR. KAZUNGU (37)</b> holds a Masters of Business Administration (MBA) in Finance from Jomo Kenyatta University of Agriculture and Bachelor of Business Management degree (Accounting Option) from Moi university. He is a qualified accountant with CPA (K) and a member of Institute of Certified Public Accountants (ICPAK).</p> <p>He has over ten (10) years' experience in finance and Accounting gained in Public sector.</p>
 <p><b>Dr. Martha K. Induli</b> Deputy Director Research Technology and Innovation</p>	<p><b>DR. INDULI (46)</b> holds a Doctor of Philosophy (Natural Products Chemistry) from Makerere University, a Master's of Science (Chemistry) from University of Nairobi and a Bachelor of Science (Chemistry) degree from Moi University. She is a member of the Natural Products Research Network for Eastern and Central Africa (Kenya Chapter).</p> <p>She is an expert in Plant and Microbial Natural products research and has over 20 years' experience in the field with several publications in various refereed journals.</p>

## CHAIRMAN'S STATEMENT



On behalf of the KIRDI Board of Directors, I am pleased to present the KIRDI Statement of Accounts for Financial Year 2019/2020.

The Kenya National longterm development agenda is set out in Kenya Vision 2030 programme, it aims to transform the country into an industrialized middle income nation, providing high quality life for all citizens by the year 2030.

To achieve this goal, KIRDI plays a central role and has remained focused on delivery of its mandate to undertake industrial research and transfer innovative technologies for socio-economic development.

The manufacturing sector in Kenya is continuously facing challenges that hinders its growth. The main challenges are low productivity and low global competitiveness caused by the nature of manufacturing technology compared to other parts of the world which makes imported products more affordable and of higher quality as compared to locally manufactured products.

To aid the manufacturing sector, KIRDI has continued to develop and transfer to industry technologies geared towards addressing the challenges of productivity levels and product quality. In support of the Government's priority sector of Leather, the Institute has completed the leather research laboratory and common manufacturing facility in KIRDI, Kisumu. This facility will offer support value addition to leather as well as common manufacturing facilities to MSMEs. In the Institutes' endeavour for improved service delivery, we supported Micro, Small and Medium Enterprises (MSMEs) through: technology transfer; product development; business incubation; common manufacturing facilities; training and Capacity Building; and Quality Assurance through Laboratory Services thus contributing to the wealth and employment creation.

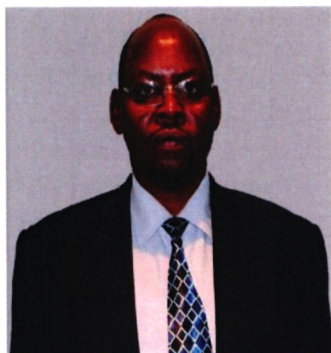
The Institute is committed to constitutionalism, governance and integrity. To this end the Institute continued to review and align its policies and programmes with the constitution, ensured adherence to Mwongozo Code of Governance and promotion of National Values and Principles of Governance.

Signature: .....

Date: 28/05/2021.....

**HON. J. LELELIT LATI**

## REPORT OF THE CHIEF EXECUTIVE OFFICER



I am delighted to present the KIRDI Financial Report for the 2019/2020 Financial Year. The Institute has continued to undertake its mandate as clearly stipulated in the Science, Technology and Innovation Act (2013) as well as play its vital role in the country's industrialization agenda as envisaged in the Big Four Agenda and Vision 2030. KIRDI itself is a Vision 2030 Flagship project (transformation of KIRDI into a world class research organization). To live to this the institute has intensified its developmental and operational programmes to achieve the envisioned global competitiveness status. The institution continued to implement the Government's industrialization priority sectors of Leather, Textile and Agro-processing. During the 2019/2020 Financial Year the Institute implemented the following programmes: -

### (a) Promotion of MSMEs Development

During the 2019/2020 Financial Year the Institute supported Six hundred and eighty eight (688) MSMEs as follows: -

- i. Three (3) MSMEs through Technology Incubation Services
- ii. Three hundred and six (306) MSMEs through Common Manufacturing Facilities.
- iii. One hundred and seventy two (172) MSMEs through Training, Capacity building and Consultancy services
- iv. Two hundred and seven (207) MSMEs in Quality Assurance through Laboratory Analytical and Testing Services.

### (b) Enhancing Global Competitiveness

During the 2019/2020 Financial Year the Institute supported the upgrade of twenty seven (27) MSMEs products to enhance their global competitiveness through Product Development, Standardization, and Packaging.

### (c) Infrastructure Development

The target during 2019/2020 Financial Year was to equip KIRDI, Kisumu Food Processing, Natural Products and Energy Product Laboratories and Common Manufacturing Facilities. Procurement of equipment is still on-going. The annual target was not met since COVID-19 pandemic affected delivery and installation of equipment. The on-going construction works at KIRDI, South B has increased by 6% currently standing at 70% completion level as targeted during Financial Year 2019/2020.

**(d) Externally Funded Projects**

The Institute implemented/collaborated in the implementation of the following externally funded projects: -

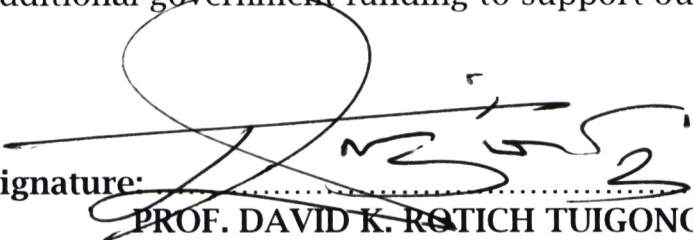
- i. Business Incubation for African Women Entrepreneurs (BIAWE) funded by COMESA.
- ii. Adaptation and Promotion of Refractance Window Drying Technology for production of High Quality Bio-products funded by Bio Innovate Africa.
- iii. Upgrading Artisanal Nyirinyiri Processing Technology in Northern Kenya for enhanced quality, safety and market access funded by National Research Fund, Kenya.
- iv. Production of polyphenol and Gama-Amino Butyric Acid enhanced tea varieties for mitigation against cancer and high blood pressure funded by National Research Fund, Kenya.
- v. Approaches to value-addition and commercialization of climate smart crops for enhanced food security and nutrition in Africa and beyond funded by National Research Fund, Kenya.
- vi. Developing microbial biotechnology industry from Kenya's soda lakes in line with the Nagoya Protocol funded by Global Environment Facility.
- vii. Africa Centre of Excellence in Phytochemicals, Textiles and Renewable Energy Funded by World Bank
- viii. Green and Circular Innovation for Kenyan Companies (GECKO) funded by the Strategic Sector Cooperation
- ix. Greening Kenya: Stimulating Competitiveness and Investment in the face of Resource Scarcity and Climate Change, funded by Green Climate fund
- x. Development of Milk-Fish and Kimarawali solar drying-cooling technology, value addition and Quality Assurance, funded by BMEL/BLE
- xi. Promotion of Integrated and Eco-friendly technologies for optimal operation of Kenyan slaughterhouses funded by GoK/KIRDI funding.

**(e) Challenges and Way-Forward**

- i. Budget implementation was affected by reduced collection of internally generated income (A-in-A). This was on account of scaled down operation at the Institute centres due to COVID-19 pandemic experienced at the close of Quarter 3 and 4 in the Financial Year.
- ii. The Institutes Research centres operations were slowed down by challenges of equipment repair and maintenance due to financial

constraints and use of obsolete equipment. Going forward the Institute will rehabilitate and procure modern equipment to enhance efficiency of the centre operations.

In view of the aforesaid, our central focus is to put in place strategies to increase our internally generated funds, seek development partners and additional government funding to support our programs.

Signature:  Date: 28/05/2021  
PROF. DAVID K. ROTICH TUIGONG

## **CORPORATE GOVERNANCE STATEMENT**

The Board and Management of KIRDI are committed to maintaining the highest standards of corporate governance. This statement describes KIRDI's governance principles and practices. The Institute's corporate values and ethics are entrenched in the strategic and Institutional objectives and are focused on transforming and accelerating growth in value for the benefit of all Institute's stakeholders.

### **The Board Role**

The Board of KIRDI exercises its role collectively. The Board determines the Institute's Mission, Vision, Purpose and Core values, sets and oversees the overall strategy and approves significant policies of the institute, ensures that the strategy is aligned with the purpose of the institute and the legitimate interests and expectations of its shareholders and other stakeholders. The Board also ensures that the strategy of the Institute is aligned to the long term goals of the Institute on sustainability so as not to compromise the ability of future generations to meet their own needs. The Board also approves the organizational structure, approves the annual budget of the Institute, monitors the Institute's performance and ensures sustainability, enhances the corporate image of the Institute, ensures availability of adequate resources for the achievement of the Institute's objectives, hires the C.E.O on such terms and conditions of service as may be approved by the relevant government organs, approves the appointment of senior management staff and ensures effective communication with stakeholders.

### **Composition of the BOD**

The Board currently consists of one (1) executive and eleven (11) non-executive Directors. The composition of the Board and brief biographies of the Directors, which highlights the diverse experience and expertise which they bring to the Board as set out on pages vi to x.

### **Board Meetings**

A schedule of Board and Committee meetings is circulated to the Board in advance of the financial year.

During the year ended 30<sup>th</sup> June 2020, the Board held meetings as follows; Four (4) Full Board, One (1) Special Board meeting necessitated by recruitment of new employees, review and approval of Institute's policies and instruments and approval of Salaries and Remuneration commission (SRC) staff recommendations. Also the Board had Seven (7) RTI committee meetings, Five (5) Finance and Special Projects committee meetings, Four (4) Risk and Audit

committee meetings and Three (4) HRA committee meetings. On top of that the Board held Nine (9) special HRA Committee meetings, Two (2) Special finance and special projects committee meetings, Two (2) Performance Contract Negotiations meetings, One (1) Board Induction and One (1) BOD retreat.

Individual attendance at these meetings is set out in the table below.

**2019/2020 BOARD AND BOARD COMMITTEES MEMBERSHIP AND ATTENDANCE**

Director	FB	SFB	F&SP	SF&SP	RTI	RAC	HRA	SHRA	PC	BI	BR
Hon. J. Lelelit Lati	4	1							2		1
Prof. C. G. Nyagah	4	1			7	4					
Maj. Rtd. Hussein Herin	4	1	5	2			3	9		1	1
Ms. Nancy Muya	3	1	5	2	4						1
Mr. M. Gumo	3	1				2	2	7			1
Eng. A. G. Muigai	4	1	5	2	7				2		1
Dr. D. Njubi	3	1			7	4					1
Dr. Kaberia E. Limukii	3	1	5	2	6					1	1
Ms. N. Njeru	3	1	5	2			1	7			1
Dr. Stephen K. Mairori	4	1				4	3	9			1
Ms. Rahab W. Lanoi	4	1				4	3	9		1	1
Mr. James Wang,ombe	2										
Prof. D. R. Tuigong'	4	1	4	2	7		3	9	2		1

**KEY**

- FB* - *Full Board*  
*SFB* - *Special Full Board*  
*F & SP* - *Finance and Special Projects*  
*SF&SP* - *Special Finance and special Projects*  
*RTI* - *Research Technology and Innovation*  
*RAC* - *Risk and Audit*  
*HRA* - *Human Resource and Administration*  
*SHRA* - *Special Human Resource and Administration*  
*PC* - *Performance Contract*  
*BI* - *Board Induction*  
*BR* - *Board Retreat*

## BOARD COMMITTEES AND THEIR COMPOSITION

The Board committees, composition and mandate is as below;

### 1. Research Technology and Innovation Committee

This being the Core Mandate of the Institute, the committee deliberates on all matters pertaining to Research, Technology and Innovation policies, guidelines and management.

The members of the committee were:

Eng. Andrew G. Muigai - Chairperson  
Prof. Christopher G. Nyagah  
Dr. Kaberia E. Limukii  
Ms. Nancy Muya  
Dr. David Njubi  
Dr. Stephen K. Mairori  
Prof. David K. Rotich Tuigong'

The committee had the responsibility to Monitor and evaluate Research, Technology, Innovation and Development in the Institute, Consider, define and recommend to the Board the scope of Research, Technology, Innovation and Development areas relevant to the Institute, Develop policy guidelines to manage Research, Technology, Innovation and Development portfolio of the Institute and vet, monitor and inspect the extent of Research, Technology, Innovation and Development comparing with the world best practices.

### 2. Finance and Special Projects Committee

The Finance and Special Projects (F&SP) Committee is the prime mechanism through which the Board ensures that the institution's decisions, policies and practices in relation to finance, procurement, infrastructural development and all special projects are in full compliance with relevant policies and statutory requirements.

The members of the committee were:

Ms. Nyawira Njeru - Chairperson  
Ms. Nancy Muya  
Maj. Rtd. Hussein Abshiro Herin  
Dr. Kaberia E. Limukii  
Eng. Andrew Muigai  
Prof. David K. Rotich Tuigong'

This Committee had the role of considering, advising and making appropriate recommendations to the Board of Directors on all aspects of financial strategy, including fundraising initiatives, Reviewing financial performance against budget and plans, Considering proposals for major capital expenditure projects and recommending to the Board, Reviewing progress on each major capital expenditure project during implementation, requesting and receiving reports from other committees on any matter having a financial implication, Ensuring that adequate A in A was raised, providing oversight of the arrangements for safeguarding institutional assets and making recommendations to the Board as appropriate.

### **3. Risk and Audit Committee**

The Risk & Audit (RAC) Committee of the Board dealt with risk management and audit matters. The internal audit unit within the institute was responsible for the institution's internal audit and provided secretariat to the Risk & Audit Committee of the Board.

The members of the Committee were:

Prof. Christopher G. Nyagah - Chairperson  
Mr. Martin Gumo  
Dr. David Njubi  
Dr. Stephen K. Mairori  
Ms. Rahab W. Lanoi  
Ms. Nyawira Njeru

The Committee reviewed the activities, resources and the operational effectiveness of internal audit office; including appointment, replacement, and dismissal of the Internal Auditor, and where appropriate made recommendations to the Board. It considered the respective scope of work and audit plans of the internal audit office, reviewed major findings on internal audit and investigations reports; and ensured that appropriate action was taken on issues arising from such reports, reviewed and monitored management's responsiveness to the findings and recommendations of the Internal Auditor, reviewed the Comptroller and Auditor General /external auditor's management letters and management's response, discussed with external auditors any reservations and problems arising in the course of their audit, and any audit management letters and management responses prior to the issuance of the audit certificate, reported Committee actions to the Board with such recommendations as the committee may deem appropriate;

and Undertook such other duties or functions as may be assigned by the Board of Directors which are relevant to audit and investigations.

#### **4. Human Resources and Administration Committee**

The committee was expected to satisfy itself that the institute's human resources management and administration activities were adequate and effective.

The Members of the Committee were:

Dr. Stephen K. Mairori - Chairperson  
Mr. Martin Gumo  
Maj. Hussein Abshiro Herin  
Ms. Nyawira Ophelia Njeru  
Ms. Rahab W. Lanoi  
Prof. David K. Rotich Tuigong'

The Role of the Committee was to consider, review, monitor and make recommendations to the Board of Directors on the institute's human resources strategy and policies that pertain to staffing, compensation, benefits, and related issues of strategic importance that directly affected the institute's ability to recruit, develop and retain highly-qualified staff needed for it to achieve its mandate, to deliberate on promotions, terminations, dismissals, and staff development within the specified job grades, to request and receive reports from other committees on any matter having a human Resource implication and undertake such other duties or functions as may be assigned by the Board of Directors which are relevant to Human Resource and Administration.

#### **Directors' Remunerations**

Details of remuneration paid to the Directors are set out in the Remuneration Report on page 13.

#### **Risk Management and Internal Control**

The Board is responsible for the Institute's system of risk management and internal control, which is designed to manage rather than eliminate the risk of failure to achieve Institutes objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. The Board has delegated responsibility for the ongoing monitoring of the effectiveness of this system to the Risk and Audit Committee. The Board received regular reports from the Chairman of the Risk and Audit Committee on its activities during the year and in addition considered a report from the Audit Committee on the

conduct of and the findings and agreed actions from the annual assessment of risk management and internal control.

### **Board Performance Evaluation**

Under the guidelines issued by the State Corporations Advisory Committee (SCAC), and the Performance Management office The Board is responsible for ensuring that a rigorous evaluation is carried out of its performance, and that of its committees and individual directors. The evaluation is conducted annually and the results of the evaluation are provided to the Ministry of Industrialization and Enterprise Development, SCAC and office of the President on Performance contracting.

### **Institute's Conduct Guidelines**

The Guidelines set out the KIRDI's commitment to the highest standards of integrity. They have been circulated to employees across the Institute and are also available on the Institute's website [www.kirdi.go.ke](http://www.kirdi.go.ke). A range of measures were developed to ensure that employees in the Institute remained aware of the Guidelines and of the general need to ensure that all the institute's activities were conducted in a compliant and ethical manner.

### **Ethical Policies**

The values of the Institute are Customer focus, Innovativeness and creativity, Integrity and professionalism, Quality, Partnerships and teamwork and Environmental Protection. The Board carries out its legal duties in accordance with these values and having appropriate regard to the interests of the KIRDI's stakeholders. Policies and codes of conduct have been established by the Board and management to support the Institute's objectives, vision and values.

### **Statement of Professional Practice**

The Institute's code of ethics, known as the KIRDI Code of Conduct, sets standards of behavior required of all employees and Directors including:

- ✓ To act properly and efficiently in pursuing the objectives of the Institute;
- ✓ To avoid situations which may give rise to a conflict of interest;
- ✓ To know and adhere to the Institute's Equal Employment Opportunity policy and programs;
- ✓ To maintain confidentiality in the affairs of the Institute and its stakeholders; and
- ✓ To be absolutely honest in all professional activities.

These standards are regularly communicated to the Institute's staff.

## **Going Concern**

The Institute's activities, together with the factors likely to affect its future development, performance and position are set out in the Report of the Chief Executive's officer on pages xv to xvii. The financial position of the Institute, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 1 to 22.

Having assessed the relevant operational risks, the Directors believe that the Institute is well placed to manage its operational risks successfully. The Directors have a reasonable expectation that the Institute has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

## **Workplace Responsibilities, Behaviors and Compliance**

The Institute is strongly committed to maintaining an ethical workplace and to complying with its legal and ethical responsibilities. The Institute has a number of policies relating to workplace responsibilities, behaviors and compliance that apply to and must be observed by staff.

The Institute has a system in place which allows staff to report (and remain anonymous if they wish) suspected fraud or corrupt, unlawful or improper conduct.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

During the 2019/2020 Financial Year, the Institute implemented the following major Projects/Initiatives to support implementation of the Big Four Agenda, and Manufacturing Pillar of the Vision 2030: (a) Infrastructure development which includes the construction of Research, Technology and Innovation laboratories at KIRDI South B, Nairobi and Research, Technology and Innovation laboratories in KIRDI, Kisumu, (b) Technology transferred for manufacturing value addition, (c) Promotion of MSMEs development and (c) Upgrade of MSMEs products to enhance their global competitiveness.

The Institute completed the construction of Leather annex building in KIRDI Kisumu. The Institute also completed the installation of the leather processing and common manufacturing facilities. The laboratories are meant to enhance the quality of research and technology development, increase the number of MSMEs supported as well as increase the amount of internally generated income (A-in-A). The construction of Research, Technology and Innovation laboratories in KIRDI South B increased to 70% completion level.

The Institute supported 688 MSMEs during 2019/2020 Financial Year through provision of: Common Manufacturing Facilities; Technology Incubation; Training and Capacity Building; and Laboratory Services against a target of Six Hundred and Four (684) MSMEs meaning we surpassed by Four (4) MSME support. The Institute upgraded Twenty-Seven (27) MSMEs products to achieve global competitiveness.

During the 2019/2020 Financial Year the Institute realized internally generated income (A-in-A) of Kshs.16,331,591 against a target of Kshs.39 Million. The target was not achieved due to scaling down of the institute operation and the Institutes Service centers. This shortfall was on account of budgetary shortfalls and the global pandemic COVID-19 which greatly affected Quarter 3 and Quarter 4 performance.

The major risk facing the Institute is slow down of the operations of the Institute due to impact of the COVID-19 pandemic that is likely to affect negatively the demand for the Institute services by the Institute's clients. To mitigate this risk, the Institute is conducting customer sensitization on post COVID-19 recovery strategies in order to build the confidence of the costumers to continue with their businesses.

## **CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

At KIRDI we are committed to conducting our business in a socially responsible and ethical manner and create a competitive work environment. The Institute recognises its responsibility to contribute positively to the community that supports it.

Below are a few illustrations of how the Institute and its staff have shown their commitment to practice responsible corporate behavior.

### **I. Working Environment**

KIRDI employees are an important asset to the institute. The institute endeavours to provide a work environment where employees are appreciated, valued and given regular feedback. All staff work in an open space promoting an 'open door' culture which encouraged communication and collaboration. Staff members are promoted based on merit and skills, and are not discriminated in any way.

### **II. Customer Service**

KIRDI nurtures relationships with all its customers based on quality products, honesty and commitment to service delivery by providing Industrial Research, Technology and Innovation services that meets the needs and expectations of our customers.

### **III. Environment**

The Institute has an environmental policy statement that drives the Institution in ensuring that all its activities are friendly to the environment and guarantee sustainability in resource utilization.

### **IV. Compliance**

KIRDI is conscious of its obligations to comply with all relevant legislation affecting its operations. KIRDI has continuously developed and implemented policies, procedures and programs that ensure continued compliance to the constitution and other legislations.

### **V. Fair Practices**

KIRDI ensures adherence to the tendering processes for goods and services as prescribed in The Public Procurement and Asset Disposal Act, 2015. Employees are educated about the laws to this end. They are required to deal with stakeholders honestly and at arm's length.

## REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30<sup>th</sup>, 2020 which show the state of the Institute's affairs.

### Principal activities

The principal activity of the Institute is to undertake Industrial Research Technology and Innovation and disseminate findings that will have a positive impact on the national development.

### Results

The results of the entity for the year ended 30<sup>th</sup> June, 2020 are set out on page 1 of this report.


### Directors

The members of the Board of Directors who served during the year are shown on page on vi.

### Auditors

The Auditor General is responsible for the statutory audit of the Institute in accordance with Article 227 of the Constitution of Kenya and the Public Audit Act, 2015.

By Order of the Board

Sign: ..... 

Date: ..... 28/05/2021

**Dr. JOSEPHINE M. AKAMA**  
**AG. CORPORATE SECRETARY**

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of Public Finance Management Act, 2012 and Section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of the Institute, which give a true and fair view of the state of affairs of the Institute at the end of the financial year/period and the operating results of the Institute for that year/period. The Directors are also required to ensure that the Institute keeps proper accounting records which disclose with reasonable accuracy the financial position of the Institute. The Directors are also responsible for safeguarding the assets of the Institute.

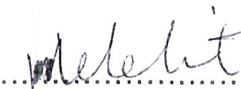
The Directors are responsible for the preparation and presentation of the Institute's financial statements, which give a true and fair view of the state of affairs of the Institute for and as at the end of the financial year (period) ended on June 30<sup>th</sup>, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Institute; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

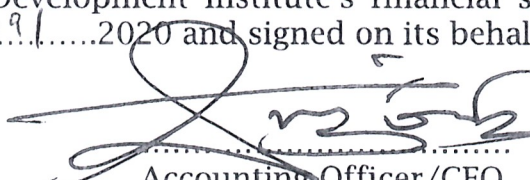
The Directors accept responsibility for the Institute's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Reporting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Institute's financial statements give a true and fair view of the state of Institute's transactions during the financial year ended June 30<sup>th</sup>, 2020, and of the Institute's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Institute, which have been relied upon in the preparation of the Institute'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 Institute will not remain a going concern for at least the next twelve months from the date of this statement.

### Approval of the financial statements

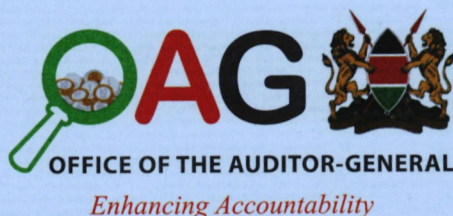
The Kenya Industrial Research and Development Institute's financial statements were approved by the board on 23/09/2020 and signed on its behalf by:

  
.....  
Chairperson of the Board

  
.....  
Accounting Officer/CEO

# REPUBLIC OF KENYA

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NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE FOR THE YEAR ENDED 30 JUNE, 2020**

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of Kenya Industrial Research and Development Institute set out on pages 1 to 24, which comprise of the statement of financial position as at 30 June, 2020, statement of financial performance, statement of changes in net assets, statement of cash flows and the 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Kenya Industrial Research and Development Institute as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Accrual Basis) and comply with the Science, Technology and Innovation Act, 2013 of Laws of Kenya and the Public Finance Management Act, 2012.

#### **Basis for Qualified Opinion**

##### **1. Lack of Revaluation Property, Plant and Equipment**

As disclosed in Note 10 to the financial statements, the statement of financial position reflects property, plant and equipment balance totalling to Kshs.4,479,731,994. However, other than motor vehicles with a net book value of Kshs.21,715,000 which were revalued in the year 2018/2019, assets with a net book value of Kshs.4,458,016,994 were last valued over forty (40) years ago in 1980.

Consequently, the accuracy, completeness and validity of the property, plant and equipment balance totalling to Kshs.4,479,731,994 reflected in the statement of financial position as at 30 June, 2020 could not be confirmed.

##### **2. Long Outstanding Accounts Receivables**

As disclosed in Note 13 to the financial statements, the statement of financial position reflects accounts receivables balance totalling to Kshs.133,174,032. The balance includes excess medical expenditure due for recovery from some members of staff amounting to Kshs.4,472,966. However, as previously reported, out of this balance, an amount of Kshs.1,581,599 relates to officers who have passed on. The accounting

policies disclosed in the financial statements do not give guidance on provisions to be made in case of death of a staff member.

In addition, the rate of recovery of the dues compared to the outstanding amounts is very low with some balances having not been recovered at all.

In the circumstances, the accuracy, completeness and recoverability of the excess medical receivable balance totalling to Kshs.4,472,966 as at 30 June, 2020 could not be confirmed.

### **3. Undisclosed Liability and Work in Progress**

Review of records revealed that the Institute had accumulated pending bills totalling to Kshs.884,000,000 for South B project and contractor's claims totalling to Kshs.1,300,000,000 for idle equipment. The bills of Kshs.884,000,000 were not disclosed in the financial statements with likelihood of distorting the true financial position.

Consequently, the accuracy, completeness and validity of bills totalling to Kshs.884,000,000 for the year ended 30 June, 2020 could not be confirmed.

### **4. Inaccuracy in the Statement of Comparison of Budget and Actual Amounts**

The statement of financial performance reflects grants and subsidies from donors totalling to Kshs.9,171,241. However, the balance was excluded in the statement of comparison of budget and actual amounts.

Consequently, the accuracy, completeness and validity of the statement of comparison of budget and actual amounts for the year ended 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Industrial Research and Development Institute Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

### **Other Matter**

### **Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury and Planning Circular reference No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

# 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 Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

## Basis for Conclusion

### 1. Delay in Project Completion - Proposed Techno Centre

The Institute contracted a local construction company for implementation of the proposed Techno Centre (Research, Technology and Innovation Laboratories and related infrastructure) in South B, that commenced on 25 February, 2013 at an estimated contract sum of Kshs.3,933,008,763 and was to take one hundred and fifty-six (156) weeks with a completion date of 3 March, 2016. According to the Architect's progress report provided by the time of audit, the project was approximately 70% complete having taken 381 weeks while the project contract price had been revised to Kshs.4,812,400,054.

Further, the Management paid an amounting of Kshs.130,040,490 to the construction company on 4 December, 2019. This was in breach of the contract which indicated that advance payment shall not be granted.

In addition, there were extra costs incurred due to interest on delayed payments, which amounted to Kshs.34,110,649 as per certificate No.39 dated 21 May, 2020.

In the circumstances, the value for money on this project may not have been obtained by 30 June, 2020 and the penalties costs were not proper charge to public funds.

### 2. Irregular Use of Development Funds

The statement of changes in net assets reflects a balance of Kshs.1,568,000,000 as development fund received during the year. Review of records revealed that an amount of Kshs.4,147,230 was utilized to finance recurrent budget without approval. This contravened Section 43(1)(b) of Public Financial Management Act, 2012 which prohibits reallocation of funds which are appropriated for capital expenditure except to defray other capital expenditure.

Consequently, the Management is in breach of the law.

### 3. Amount due from Former Employee

The Institute was involved in a court case with one of its former staff, who took the Institute to court through court case No.JR.MISC.Application No.192 of 2014.

In the full Board meeting held on 12 April, 2018, the risk and audit committee reported of the status of the court case where the Institute had incurred Kshs.970,966 in legal fees. The Board noted that the contempt proceedings against the Institute had been dismissed with costs and directed Management and Institute's lawyers to pursue refund of costs from the former employee as directed by the courts.

This amount has neither been recovered, despite the time lapse, nor has it been captured as a receivable.

In the circumstances, the Management has not prudently managed public resources.

#### **4. Advance Payments to Contractors**

The Management paid a total of Kshs.1,237,760 to a local construction company in May, 2020 as advance payment for Leather Annex Construction in Kisumu. However, the advance did not have security. This is contrary to Section 147 of the Public Procurement and Disposal Act, 2015.

Consequently, the Management is in breach of the law.

#### **5. Idle Resource Centres at Kisumu Western Region Centre (KWRC)**

The Institute planned for the construction of Research, Technology and Innovation (RTI) Laboratories at the Kisumu Western Region Centre. This was to be composed of Leather Pilot Plant and Research Laboratories, Food Processing Research Laboratories, Energy Resource Testing and Research Laboratories, Natural Products Pilot and Research Laboratories and, Administration Offices and Business Incubation Unit, for purposes of enhancing and achieving its mandate.

The contract was awarded to a local construction company and commenced on 15 April, 2011 at a contract sum of Kshs.641,410,058 and completed on 25 October, 2016 at a final cost of Kshs.783,138,524.

During a field inspection to the Centre in October, 2019, it was noted that the Food Processing, Energy Resource Testing and Natural Products Pilot Research Laboratories were not being utilized despite being complete due to lack of machinery. The buildings continue to lie idle tying public funds without achieving the intended purpose, showing lack of proper planning towards resource utilization and there could be failure to achieve the planned objectives and cash in-flows for the planned incomplete projects.

In the circumstances, I am unable to confirm whether the public obtained value for money from the project.

#### **6. Long Outstanding Trade and Other Payables**

The statement of financial position reflects accounts payable totalling to Kshs.63,514,197. The balance includes long outstanding un-remitted VAT amount of Kshs.28,453,690, Withholding Taxes totalling to Kshs.1,704,859 which continue to attract interest and penalties and other creditors totalling to Kshs.9,247,367 that has been outstanding since the financial year 2017/2018. Further, the balance includes payroll deductions amount of Kshs.2,047,614 that has been outstanding for more than 90 days.

Under the circumstances, the delayed payment of the payables is not a proper management of public resources.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the

financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

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

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and the Board of Directors**

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

In preparing the financial statements, Management is responsible for assessing the Institute's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to liquidate the Institute or to cease operations.

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

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

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Institute 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 overall 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 overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Institute to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Institute to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

  
**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**27 January, 2022**

**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020**

	NOTES	2019/2020 Kshs.	2018/2019 Kshs.
<b>REVENUE</b>			
<b>Revenue from non-exchange transactions</b>			
Transfers from Government	2	682,531,823	642,397,513
Grants and subsidies from Donors	3	9,171,241	25,972,280
		<b>691,703,064</b>	<b>668,369,793</b>
<b>Revenue from exchange transactions</b>			
Rendering of services	4	12,866,160	17,432,003
Other income	5	3,465,431	3,020,385
		<b>16,331,591</b>	<b>20,452,388</b>
<b>Total revenue</b>		<b>708,034,655</b>	<b>688,822,181</b>
<b>EXPENSES</b>			
Use of goods and services	6	66,950,472	47,887,353
Employee Costs	7	549,675,162	519,384,285
Remuneration of Directors	8	21,756,433	16,775,250
Repairs and maintenance	9	17,647,211	6,133,364
Depreciation and Amortization Expenses	10	108,821,623	106,690,117
Grants and Subsidies	11	13,949,793	21,125,790
		<b>778,800,694</b>	<b>717,996,159</b>
<b>SURPLUS/(DEFICIT) FOR THE YEAR</b>		<b>(70,766,039)</b>	<b>(29,173,978)</b>

The notes set out on pages 9 to 23 form an integral part of these financial statements

**STATEMENT OF FINANCIAL POSITION AS AT 30<sup>TH</sup> JUNE 2020**

ASSETS	NOTES	2019/2020 Kshs.	2018/2019 Kshs.
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	12	939,524,186	110,067,726
Accounts Receivable	13	133,174,032	8,722,485
Stores and inventory	14	595,261	949,723
<b>Total</b>		<b>1,073,293,479</b>	<b>119,739,934</b>
<b>NON CURRENT ASSETS</b>			
Property, Plant and Equipment	10	4,479,731,994	4,076,195,410
R & D Projects	15	160,424,504	160,424,504
<b>Total</b>		<b>4,640,156,498</b>	<b>4,236,619,914</b>
<b>TOTAL ASSETS</b>		<b>5,713,449,977</b>	<b>4,356,359,848</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	16	63,514,197	136,801,432
Unused Project Funds	17	27,681,461	32,460,013
Provisions	18	2,658,000	1,958,000
<b>Total</b>		<b>93,853,658</b>	<b>171,219,445</b>
<b>NON-CURRENT LIABILITIES</b>			
Retentions	19	259,637,749	218,248,140
<b>Total liabilities</b>		<b>353,491,407</b>	<b>389,467,585</b>
<b>NET ASSETS</b>		<b>5,359,958,570</b>	<b>3,966,892,263</b>
Capital/Development funds	20	5,775,382,396	4,316,328,602
Retained earnings	21	(415,423,826)	(349,436,339)
<b>TOTAL NET ASSETS &amp; LIABILITIES</b>		<b>5,713,449,977</b>	<b>4,356,359,848</b>

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

Signature:  Date: 28/05/2021  
Chairperson: Hon. Jonathan Lelelit Lati

Signature:  Date: 28/05/2021  
Director/CEO: Prof David Rotich Tuigong

Signature:  Date: 28/05/2021  
AD - Finance: S. Abonyo

**STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30<sup>TH</sup>  
 JUNE 2020**

	<b>Capital/dev Funds Kshs.</b>	<b>Retained earnings Kshs.</b>	<b>Total Kshs.</b>
<b>As at 30th June 2018</b>	<b>4,269,588,719</b>	<b>(316,956,760)</b>	<b>3,952,631,959</b>
Prior year adjustments	-	1,540,889	1,540,889
G.O.K Grants (net increase)	110,000,000		110,000,000
Amortization	(106,690,117)		(106,690,117)
Revaluation reserve	43,430,000		43,430,000
Surplus/(Deficit) for the year		(29,173,978)	(29,173,978)
Unutilized Donor funds for the year		(4,846,490)	(4,846,490)
<b>As at 30th June 2019</b>	<b>4,316,328,602</b>	<b>(349,436,339)</b>	<b>3,966,892,263</b>
G.O.K Grants (net increase)	1,568,000,000		1,568,000,000
Amortization	(108,821,623)		(108,821,623)
Prior year depreciation adj	(124,583)		(124,583)
Surplus/(Deficit) for the year		(70,766,039)	(70,766,039)
Unutilized Donor funds for the year		4,778,552	4,778,552
<b>As at 30th June 2020</b>	<b>5,775,382,396</b>	<b>(415,423,826)</b>	<b>5,359,958,570</b>

**STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2020**

	Note	2019/2020 Kshs.	2018/2019 Kshs.
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Operating surplus/(deficit)		(70,766,039)	(29,173,978)
Adjustment for items not involving movements of cash:			
Deferred grant income	2	(108,821,623)	(106,690,117)
Depreciation expenses	10	108,821,623	106,690,117
prior year adjustments	22	0	1,540,889
Project funds surplus/deficit	17	4,778,552	(4,846,490)
<b>Surplus/Deficits before working capital changes</b>		<b>(65,987,487)</b>	<b>(32,479,579)</b>
<b>WORKING CAPITAL CHANGES</b>			
Decrease in inventories	14	354,462	249,790
Decrease (increase) in Accounts receivable	13	(124,451,547)	11,355,091
Increase (decrease) in provisions	18	700,000	700,000
Decrease (increase) in Accounts payable	16&19	(31,897,626)	(7,442,496)
Changes in Working capital		(155,294,711)	4,862,385
<b>Net cash flow generated from Operating Activities</b>		<b>(221,282,198)</b>	<b>(27,617,194)</b>
<b>Cash Flow in Investing Activities:</b>			
Additions to Property, plant and Equipment	10	(512,482,790)	(24,487,632)
<b>Cash flow from financing:</b>			
Capital grants		1,568,000,000	110,000,000
Donor funding increase/decrease	17	(4,778,552)	4,846,490
<b>Net cash generated from financing activities</b>		<b>1,563,221,448</b>	<b>114,846,490</b>
Net increase/ decrease in cash and cash equivalents		829,456,460	62,741,664
Cash at the beginning of the year		110,067,726	47,326,062
Cash at the end of the year	12	939,524,186	110,067,726

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS -  
RECURRENT BUDGET 2019/2020**

	Original Budget	Adjustment	Final Budget	Actual comparable basis	Performance difference	Percentage variance	Note
<b>Revenue</b>	<b>Kshs.</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>%</b>	
Rendering of services	39,000,000	-	39,000,000	16,331,591	(22,668,409)	-58	i
Government grants	539,040,200	14,670,000	553,710,200	573,710,200	20,000,000	4	
Grants & Subsidies	-	-	-	9,171,241	9,171,241	100	ii
<b>Total income</b>	<b>578,040,200</b>	<b>14,670,000</b>	<b>592,710,200</b>	<b>599,213,032</b>	<b>-</b>	<b>-1</b>	
<b>Expenditure</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>%</b>	
Use of Goods & Services	33,828,590	3,705,461	37,534,051	59,819,645	(22,285,594)	-59	iii
Employees costs	530,711,610	6,529,939	537,241,149	549,675,162	(12,434,013)	-2	
Remuneration of Directors	7,500,000	1,300,000	8,800,000	21,756,433	(12,956,433)	-147	iv
Repairs and maintenance	6,000,000	3,135,000	9,135,000	17,647,211	(8,512,211)	-93	v
Grants & Subsidies	-	13,949,793	13,949,793	13,949,793	-	0	
<b>Total Expenditure</b>	<b>578,040,200</b>	<b>28,620,193</b>	<b>606,659,993</b>	<b>662,848,244</b>	<b>(56,006,251)</b>	<b>-9</b>	
<b>Surplus/(Deficit)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(63,635,212)</b>			

Statement of reconciliation in Note 28

**Budget variances**

The over-expenditure (negative variances) reflected in the recurrent budget vote-lines were due to the following:

**(i) Rendering of services**

Delay in disbursement of government grants particularly in the first quarter affected the commencement of key procurement activities needed to scale up operations and the effect of Covid 19 slowed down operations in quarter 3 & 4.

**(ii) Grants & Subsidies**

The positive balance is realized fund from donor collaborative projects which is was received in the financial year and was not in the original.

**(iii) Goods and services**

The negative variance of Kshs.22.2 million under this budget-line was a result of additional activities and an increase in the operational cost undertaken in the year.

**(iv) Remuneration of Directors**

The negative variance of Kshs.12.9 million was due to underestimation of line item with unanticipated increase in activities that demand the attention of the Board during the year.

**(v) Repair & Maintenance**

The negative variance of Kshs.8.5 million was occasioned by high cost of repairing Institute Vehicles most of which were purchased more than 10 years ago.

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS -  
DEVELOPMENT BUDGET 2019/2020**

	Original Budget	Adjustment	Final Budget	Actual comparable basis	Performance difference	Percentage variance	Note
<b>Revenue</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>%</b>	
Development grants	1,568,000,000	-	1,568,000,000	1,568,000,000	-	-	
<b>Expenditure</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>%</b>	<b>Note</b>
Purchase of specialized materials and supplies	-	-	-	-	-	-	
Construction of Buildings	1,018,000,000		1,018,000,000	825,590,841	192,409,159	19	vi
Production of prototype ICU ventilator	-	4,038,354	4,038,354	-	4,038,354	-	vii
Purchase of Furniture & General Equipment	-	-	-	377,240	(377,240)	0	viii
Purchase of specialized equip plant and machinery	510,000,000	-	510,000,000	315,548,964	194,451,036	38	ix
Rehabilitation and Renovation of plant Equipment/machinery	38,000,000	(4,038,354)	33,961,646	-	33,961,646	100	x
Research, Feasibility Studies, project design, Preparation & Supervision	2,000,000	-	2,000,000	6,776,365	(4,776,365)	-239	xi
<b>Total</b>	<b>1,568,000,000</b>	<b>-</b>	<b>1,568,000,000</b>	<b>1,148,293,410</b>	<b>419,888,590</b>	<b>27</b>	

Statement of reconciliation in Note 29

**Budget variances**

The over-expenditure (negative variances) and non-spending reflected in the development budget vote-lines were due to the following:

**(vi) Construction of buildings**

The variance of KshS.192.5 million in the budget was a result debit notes which had not been received from the contractor with accumulated balances for settlement.

**(vii) Production of ICU ventilator**

The initial research phase for the project was not completed in order to allow actual expenditure to commence.

**viii) Purchase of furniture and equipment**

There was need to replacement old furniture and also equip the new work-stations.

**(ix) Purchase of specialized machinery**

The under expenditure was due to delays in commencement of projected activities brought about by effects of scaling down operations due to Covid 19.

**(x) Rehabilitation and renovations**

The preliminary activities for the planned works were not completed for actual expenditure to commence.

**(xi) Research Feasibility studies and projects**

The negative variance of Kshs.4.7 million was as a result of research & development activities undertaken that demanded additional funds.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE  
2020

**Note 1: Significant accounting policies**

**Basis of Preparation**

- a) The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the *Institute's* accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in the Notes. The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

The financial Statements have been prepared in accordance with International Public Sector Reporting standards (IPSAS) under the historical cost convention except where otherwise stated in the Accounting policies below. In compliance with Public Finance Management Act 2012, the established Public sector accounting standards Board, PSASB published the Standards which took effect for the financial year ended 30<sup>th</sup> June 2014. The Financial Statements are prepared on accrual basis. Where necessary, comparative figures for the previous financial year have been reconfigured to conform to required changes in presentation.

**(b) Currency**

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Institute.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### (c) Property, Plant and Equipment

The fixed assets are stated at cost or as revalued on existing use basis from when the institute started self accounting, i.e. 1<sup>st</sup> July, 1980.

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Gains and losses on disposal of property, plant and Equipment are determined by reference to their carrying amount in determining operating surplus. On disposal of revalued assets, the revaluation surplus relating to that asset are transferred to retained earnings.

### (d) Depreciation

Provision is made for depreciation on the straight-line method designed to write off the original cost or valuation of fixed assets

other than land, and work in progress over the actual life of the asset. A whole year's depreciation is charged on assets acquired nine months or more prior to the closure of the financial year and none to those acquired

three months or less to the end of the financial year. The annual rates for this purpose are: -

1. Building .....	2%
2. Machines .....	12.5% or as per valuer's recommendation
3. Motor vehicles .....	25%
4. Office furniture & equipment ...	12.5% or as per valuer's recommendation
5. Computers .....	30%

### (e) Revenue

The major source of income of this institute are the grants from the Government and the nominal charges of analysis fees from industrial manufacturers, potential entrepreneurs who need laboratory reports on their products and charge services offered to

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

micro, small and medium enterprises. Income is recognized on an accrual basis.

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

### (f) **Bad Debts**

Bad debts may be written-off on approval by the Board as guided by the institute's Finance Policies and Procedures and the regulation of The PFM Act, 2012.

### (g) **Stores and Inventory**

Stock is valued at cost with the exception of donations which is reported at revaluation. Loose tools acquired as donation are amortized annually at a uniform rate over the period of their expected useful life.

### (h) **Insurance cost**

Annual insurance costs are accounted for wholly in the year of commencement of covers that expire within two months after end of financial year and prorated otherwise.

### (i) **Retirement Benefits/Gratuity**

The Institute operates a Retirement Benefit Scheme which is managed by Trustee Board under the Retirement Benefits Regulations (RBA) regulations. Further monthly remittances are made to a custodian for staff serving on Contract Terms which is eventually paid as gratuity at the expiry of the Contract.

### (j) **Government grants**

Recurrent and Development grants have been accounted for in the Statement of Financial Performance in the year received. Capital grants are accounted for over the periods necessary to match them

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

with the related costs which they are intended to compensate on a systematic basis.

### **(k) Accounts receivable**

Accounts receivable are stated at anticipated realizable value.

### **(l) Accounts payable**

Accounts payable are stated at nominal value.

### **(m) Budget information**

The annual budget is prepared on accrual basis, and all planned costs and income are presented in separate statements as recurrent and development budgets to determine the operating needs of the Institute.

The basis difference in preparation and presentation would require reconciliation between actual and comparable amounts and the amount presented as separate additional financial statement in the statement of comparison of budget and actual amounts.

### **(n) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank. Bank account balances includes amounts held at commercial banks at the end of the financial year.

### **(o) Research and development costs**

The Entity expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Entity 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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

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.

**(p) Unused Project grants**

Unused project fund surpluses are transferred to revenue reserves after completion of the projects.

**Note 2: Transfers from Government**

	2019/2020 Kshs.	2018/2019 Kshs.
Recurrent grants-operational	573,710,200	535,707,396
Deferred grant income	108,821,623	106,690,117
	<u>682,531,823</u>	<u>642,397,513</u>

**Note 3: Grants and subsidies from Donors**

	2019/2020 Kshs.	2018/2019 Kshs.
Project funds receipts	<u>9,171,241</u>	<u>25,972,280</u>

**Note 4: Rendering services**

	2019/2020 Kshs.	2018/2019 Kshs.
Service fees	<u>12,866,160</u>	<u>17,432,003</u>

**Note 5: Other income**

	2019/2020 Kshs.	2018/2019 Kshs.
Sundry revenue	<u>3,465,431</u>	<u>3,020,385</u>

**Note 6: Use of goods and Services**

	2019/2020 Kshs.	2018/2019 Kshs.
Transport operation expenses	2,459,883	2,605,959
Postal and telecom expenses	2,485,164	2,186,537
Telephone expenses	521,949	247,703
Official entertainment	5,655,712	3,298,083
Electricity	4,971,773	6,934,981
Gas purchase	1,483,334	419,945
Water and conservancy	2,074,682	1,511,964
Publishing and printing	1,922,022	938,655
Purchase of consumables	3,719,046	1,624,511
Uniform and clothing	1,219,074	17,405
Library expenses	1,555,069	608,102
Purchase of stationery	3,304,048	1,597,661
Advertising and publicity	728,570	12,340
Show expenses and market research	512,500	404,210
Rent and rate(non-residential)	2,056,352	693,000
Computer expenses	5,614,650	2,656,080
Misc. and other charges	748,246	1,096,490
Contribution to other bodies	190,360	357,997
Insurance of property	1,617,105	3,597,552
Provision for audit fee	700,000	700,000
Laboratory chemicals	6,260,107	1,768,107
Refined fuels & lubricants-production	0	22,550
Contracted guards & cleaning services	8,462,296	9,101,625
Contracted professional services	1,557,703	596,629
Decrease in stock (Note 13)	354,462	249,790
Research feasibility studies & projects	6,776,365	4,639,477
<b>Total</b>	<b>66,950,472</b>	<b>47,887,353</b>

**Note 7: Employee Costs**

	2019/2020 Kshs.	2018/2019 Kshs.
Basic salary	267,370,546	254,256,825
House allowance	103,781,106	100,753,969
Other personal allowance	39,854,683	39,493,146
Risk Allowance	11,292,387	9,793,137
Medical Expenses	34,677,376	32,230,085
Passage and Leave	5,318,000	5,838,682
Training expenses	2,177,853	2,428,759
Group life & personal accident(GPA)	1,670,623	1,379,592
Fees commission and Honoraria	10,125,950	2,819,400
Gratuity, Pension and NSSF	53,484,076	58,779,313
Travelling and subsistence	19,922,562	11,611,377
<b>Total</b>	<b>549,675,162</b>	<b>519,384,285</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 8: Directors remuneration & Board expenses**

	<b>2019/2020</b>	<b>2018/2019</b>
	<b>Kshs.</b>	<b>Kshs.</b>
Sitting allowances	3,760,000	2,832,000
Travel costs	4,847,933	3,936,579
Hospitality costs	3,368,126	1,836,559
Conferences and seminars	3,891,628	2,699,628
Daily subsistence	4,928,746	4,510,484
Remuneration & honoraria	960,000	960,000
	<b>21,756,433</b>	<b>16,775,250</b>

**Note 9: Repairs and Maintenance**

	<b>2019/2020</b>	<b>2018/2019</b>
	<b>Kshs.</b>	<b>Kshs.</b>
Maint. of office, furniture & equip.	3,211,742	2,052,836
Maint. of build. & stations-non res.	2,845,789	878,371
Maint. of plant machinery & equip.	5,423,246	2,189,196
Maint. exp-motor vehicles	6,166,434	1,012,961
<b>Total</b>	<b>17,647,211</b>	<b>6,133,364</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 10: FIXED ASSETS SCHEDULE**

	LAND	WORK IN PROGRESS	BUILDINGS	MACHINERY & EQUIPMENT	MOTOR VEHICLES	FURNITURE & FITTINGS	COMPUTERS & EQUIPMENT	TOTAL
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
Value/Cost	26,865,000	2,805,909,448	1,088,221,014	667,127,156	119,544,232	42,666,807	55,376,326	4,805,709,983
as at 1/7/2019								
Additions during the year	-	443,369,368	-	47,810,840	-	377,240	20,925,342	512,482,790
Revaluation Adjust.					(75,289,232)			(75,289,232)
<b>TOTAL</b>								
6/30/2020	26,865,000	3,249,278,816	1,088,221,014	714,937,996	44,255,000	43,044,047	76,301,668	5,242,903,541
Depreciation for previous year	383,786	-	21,764,420	68,649,973	10,857,500	2,343,158	2,691,280	106,690,117
Accumulated	767,572	-	141,981,444	414,116,126	11,682,500	33,428,594	52,373,688	654,349,924
Depreciation b/f								
Depreciation/Amortz for this year	383,786		21,764,420	71,303,333	10,857,500	2,243,904	2,268,680	108,821,623
Total Depreciation	1,151,358	-	163,745,864	485,419,459	22,540,000	35,672,498	54,642,368	763,171,547
Net Book Value 30 <sup>th</sup> June 2020	25,713,642	3,249,278,816	924,475,150	229,518,537	21,715,000	7,371,549	21,659,300	4,479,731,994
Net Book Value 30-Jun-2019	26,097,428	2,805,909,448	946,239,570	253,011,030	32,572,500	9,362,796	3,002,638	4,076,195,410

The capital work in progress relates to ongoing RTI laboratories construction project in Nairobi South B and the construction of Leather annex in Kisumu. A total of Kshs. 14,353,929 and Kshs. 429,015,439 was spend in Kisumu and South B projects respectively.

Motor vehicles whose original valuation was Ksh 75,289,232 and being fully depreciated has been adjusted to the current valuation of Ksh 44,255,000.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 11: Grants and subsidies**

	2019/2020 Kshs.	2018/2019 Kshs.
Project fund utilized	13,949,793	21,125,790

Note 12a Cash and cash equivalents	2019/2020 KSHS.	2018/2019 KSHS.
<b>Current Account</b>		
National bank of Kenya	304,991,731	99,854,402
Absa Bank	630,970,629	3,456,274
<b>Others</b>		
Mpesa Account	3,561,826	6,757,050
	<b>939,524,186</b>	<b>110,067,726</b>

Note 12b Analysis of Cash and cash equivalent	Account number	2019/2020 KSHS.	2018/2019 KSHS.
National bank of Kenya-HQ main Account	01003000903200	1,280,775	37,723,081
National bank of Kenya-LDC A/c	01003002829200	250,730,955	77,201
National bank of Kenya-EDSC A/c	01003002832800	329,749	833,847
National bank of Kenya-Kisumu A/c	01003000903202	1,301,481	1,432,233
National bank of Kenya-LSC A/c	01003005406800	1,931,262	1,031,282
Absa Bank A/c	0708004898	384,157,847	3,456,274
National bank of Kenya-NIIC Account	01003005406700	667,509	10,006,758
Mpesa Account	681725	3,561,826	6,757,050
Absa Bank-LC Guarantee	0708004898	246,812,782	
National bank of Kenya-LC Guarantee	01003000903200	48,750,000	48,750,000
<b>TOTAL</b>		<b>939,524,186</b>	<b>110,067,726</b>

**Note 13: Accounts Receivable**

	<b>2019/2020 Kshs.</b>	<b>2018/2019 Kshs.</b>
Ministry of Industrialization	0	2,269,482.00
National Industrial Training Authority	0	2,460,000
<b>Less: Provision for doubtful debts</b>	0	(2,460,000)
Traveling imprest(Local)	168,000	72,200
Temporary imprest	3,664,854	347,743
Salary advance	340,755	360,996
Excess medical	4,472,966	4,754,436
Excess medical insurance	153,490	153,490
Fuel deposit	366,000	366,000
Oxygen deposit	30,000	30,000
Hospital deposit	10,000	10,000
KPLC deposit-Kisumu	308,138	308,138
KPLC deposit-South C & Eldoret	50,000	50,000
Contractors advance payment against bank guarantee	123,609,829	0
<b>Total</b>	<b>133,174,032</b>	<b>8,722,485</b>

**Note 14: Stores and Inventories**

	<b>2019/2020 Kshs.</b>	<b>2018/2019 Kshs.</b>
General Stores	595,261	949,723
Loose tools	-	-
<b>Total</b>	<b>595,261</b>	<b>949,723</b>

Decrease in stock (general stores) is Kshs.354,462 based on closing balances variation.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 15: R & D Projects**

These is composed of expenditure amounting Kshs.160,424,504 transferred from Development vote to R & D on recognition that R & D projects will generate future economic benefits.

The Institute intends to patent its research discoveries which includes prototype development, designs and pilot plants.

**Note 16: Accounts Payable**

	<b>2019/2020 Kshs.</b>	<b>2018/2019 Kshs.</b>
Payroll deductions	8,490,420	45,881,151
Miscellaneous deposits a/c	1,084,777	3,478,170
Salary arrears (SRC)	10,954,629	0
Other Creditors	42,984,371	87,442,111
<b>Total</b>	<b>63,514,197</b>	<b>136,801,432</b>

**Note 17: Unused Project funds**

	<b>2019/2020 Kshs.</b>	<b>2018/2019 Kshs.</b>
National Research fund	7,566,335	8,024,161
Blue Economy Project	6,616,351	13,629,244
ICIPE Project	3,847,185	1,831,281
Green climate project-UN	312,984	1,101,041
Soda lake Project-KWS	3,511,180	4,037,780
GECKO Project-Denmark Tekniske Univ.	634,628	1,857,278
SolCool Dry Project-BMEL/BLE	3,274,645	61,075
Technology localization UHL MPH-UNIDO	1,918,153	1,918,153
<b>Total</b>	<b>27,681,461</b>	<b>32,460,013</b>

**Note 18: Provisions**

	<b>2019/2020 Kshs.</b>	<b>2018/2019 Kshs.</b>
Provision for Audit fee at the beginning	1,958,000	1,258,000
Additional for the year	700,000	700,000
Provision utilized in the year	0	0
<b>Balance at year-end</b>	<b>2,658,000</b>	<b>1,958,000</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 19: Retention money**

These are retention monies on bills settled for construction contracts which are held for more than a year pending projects completion and expiry of defects liability period.

	<b>2019/2020</b>	<b>2018/2019</b>
	<b>Kshs.</b>	<b>Kshs.</b>
Balance at the beginning	218,248,140	216,611,493
Additions during the year	41,389,609	1,636,647
Closing balance	<b>259,637,749</b>	<b>218,248,140</b>

**Note 20: Capital/development funds**

The Kshs.5,775,382,396 stated as Capital funds is the net accumulation of Development releases going way back to 1980 when the Institute began self-Accounting.

These represents grants received from the exchequer to finance acquisition of capital assets and other expenses related to research and development activities.

**Note 21: Retained earnings**

This represents the Institute's accumulated funds Account as balances brought forward for revaluation reserves and the surplus/deficit arising from the income and expenditure account.

**Note 22: Prior year adjustments**

Prior year adjustments were made in the relevant year against surplus for expenses related to a previous year.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### **Note 23: Recurrent and Development expenditure**

The expenditure is financed by both recurrent and development funds received from G.o.K.

### **Note 24: Related party transactions**

At the closing of the financial year the institute had received the allocated grants in full from the ministry of Industry, Trade & Cooperatives.

### **Note 25: Contingent liabilities**

At the year-end there were no contingent liabilities and subsequent events foreseeable.

### **Note 26: Financial risk management**

The Institute has no significant risk attributed to accounts receivable. Services offered to clients are primarily on cash basis. Advances and prepayments are managed within approved policy parameters.

### **Note 27: Capital commitments**

Authorized and contracted for is the proposed construction of RTI laboratories in Nairobi south B at a cost of Kshs.4,812,400,055.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Note 28: Statement of reconciliation between the comparison of budgeted and actual amounts and statement of financial performance as at 30<sup>th</sup> June 2020**

**RECURRENT BUDGET**

<u>PARTICULARS</u>	<u>AMOUNT</u> Kshs.
Deficit as per Statement of Comparisons of budget and actual amounts	63,635,212
<b>Add:</b> Decrease in stock-Amortization adjustment (Note 14)	354,462
Research expenses charged under dev budget	<u>6,776,365</u>
Deficit as per Statement of financial performance	70,766,039

**Note 29: Statement of reconciliation between the comparison of budgeted and actual amounts and statement of financial position as at 30<sup>th</sup> June 2020**

**a) Reconciliation statement (Development funds)**

<u>PARTICULARS</u>	<u>AMOUNT</u> Kshs.
Total expenditure as per Development budget (Note 29b)	1,148,111,410
<b>Less:</b> Letters of credit (Absa Guarantee) for equipment procurement	(246,812,782)
Amount paid to contractors as advance with bank guarantee	(131,384,519)
Non capital research costs charged to dev. budget line	(6,776,365)
Retention money set aside and held in LDC A/C	<u>(250,654,954)</u>
Net increase in Assets as per statement of financial position (Note 10)	<u>512,482,790</u>

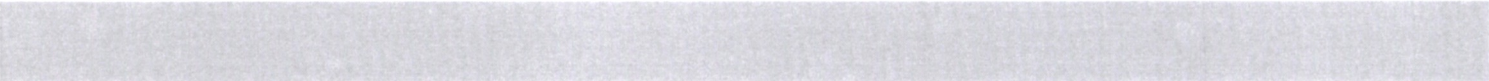
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**b)Statement of funds utilization (Development)**

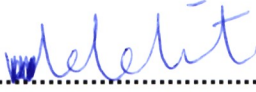
<u>Particulars</u>	<u>Amount(KSH)</u>
<u>Construction of buildings</u>	
Additions to W. I.P (Note10)	443,369,368
Payment to Contractors as advance with guarantee(Vaghjiyani ltd & Gibbs ltd)	131,384,519
Amount set aside in respect of Retentions - (Transfer held in LDC A/c as commitments)	250,654,954
	<u>825,408,841</u>
<u>Purchase of Furniture &amp; General Equipment</u>	
Additions to furniture and equipment(Note10)	377,240
<u>Purchase of specialized equip plant and machinery</u>	
Additions to machinery & equipment (Note10)	47,810,840
Additions to computer and equipment(Note10)	20,925,342
Purchase of machinery & equip-ABSA letters of credit as commitments	246,812,782
	<u>315,548,964</u>
Research, Feasibility Studies, project design, preparation & Supervision (note 6)	6,776,365
<b>Total</b>	<u><b>1,148,111,410</b></u>

**APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

At the time of preparing the Financial statements the previous year's report had not been received.



Signature:  Date: 28/05/2021  
Director/CEO

Signature:  Date: 28/05/2021  
Chairperson

**APPENDIX II: INTER -ENTITY TRANSFERS**

**Breakdown of Transfers from the State Department of Industry**

(a)	Recurrent Grants	Bank Statement Date	Amount Kshs.	F/y to which the Amount Relates
	1 <sup>st</sup> Quarter	16/08/19	134,760,050	2019/20
	2 <sup>nd</sup> Quarter	18/10/19	134,760,050	2019/20
	2 <sup>rd</sup> Quarter	28/10/19	20,000,000	2017/18
	3 <sup>th</sup> Quarter	30/01/20	134,760,050	2019/20
	4 <sup>th</sup> Quarter	05/05/20	44,920,016	2019/20
	4 <sup>th</sup> Quarter	02/06/20	44,920,016	2019/20
	4 <sup>th</sup> Quarter	02/06/20	14,670,000	2019/20
	4 <sup>th</sup> Quarter	29/06/20	44,920,016	2019/20
(b)	<b>Development Grants</b>			
	1 <sup>st</sup> Quarter	02/10/19	350,000,000	2019/20
	2 <sup>nd</sup> Quarter	21/12/19	154,100,000	2019/20
	3 <sup>rd</sup> Quarter	11/03/20	395,900,000	2019/20
	3 <sup>rd</sup> Quarter	11/03/19	668,000,000	2019/20
	4 <sup>th</sup> Quarter	Nil	0	

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

Assistant Director  
Finance, KIRDI

Ministry of Industrialization Trade &  
Enterprise Development, State  
Department for Industrialization  
Head of Accounting Unit

Sign.....

Sign.....

**END OF REPORT**