



REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

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LIBRARY

**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
KENYA INDUSTRIAL PROPERTY  
INSTITUTE**

**FOR THE YEAR ENDED**

**30 JUNE 2019**

**NATIONAL ASSEMBLY  
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Kenya Industrial Property Institute



# KENYA INDUSTRIAL PROPERTY INSTITUTE

## FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED  
30<sup>TH</sup> JUNE, 2019

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



Financial statements for Year Ended 30th June, 2019

KIPI is ISO 9001 : 2008 Certified



## VISION

Be a world class institution in administration of industrial property rights.

## MISSION

To protect and promote industrial property rights to foster innovation for sustainable development in Kenya.

## CORE VALUES

Pursuant to its mandate and functions, the Institute is guided by the following core values;

**(i) Confidentiality**

The Institute endeavours to guarantee the privacy and confidentiality of its customers' information.

**(ii) Customer Focus**

The Institute strives to understand and meet customer needs and aim to exceed their expectations.

**(iii) Innovation**

The Institute commits to foster an enabling environment that encourages creativity, continuous learning and improvement for sufficient and effective service delivery.

**(iv) Integrity**

The Institute endeavors to be honest, fair and ethical in creating a culture of trust and accountability in all its activities and decision making.

**(v) Professionalism**

The Institute will maintain high standards and professional competence in the discharge of service. It will abide to professional and considerations on the methods, standards and procedures in its work.

**(vi) Team Work**

The Institute creates a unique atmosphere of collaboration, mutual support and genuine interest in each other's success. Its diverse mix of cultures and experiences provides a variety of perspectives and talents that, when united through teamwork, strengthens the ability to achieve goals.







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## KENYA INDUSTRIAL PROPERTY INSTITUTE'S INFORMATION AND MANAGEMENT

### (a) Background Information

The Kenya Industrial Property Institute (the Institute) is a body corporate established under the Industrial Property Act, No. 3 of 2001. The Institute is mandated to implement the Industrial Property Act and the Trade Marks Act, Cap 506 of the Laws of Kenya.

### (b) Core Functions

The core functions of the Institute are to;

- (i) Consider applications for, grant and registration of industrial property rights;
- (ii) Screen technology transfer agreements and licences;
- (iii) Provide to the public, industrial property information for technological and economic development;
- (iv) Promote inventiveness and innovativeness in Kenya; and
- (v) Organize and conduct training, competitions and awards relating to industrial property matters.

### (c) Key Management

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

- Managing Director;
- Deputy Managing Director/Finance, Corporate Services; and
- Deputy Managing Director/Technical Services.

### (d) Fiduciary Management

The key management personnel who held office during the financial year ended 30<sup>th</sup> June, 2019 and who had direct fiduciary responsibility were:

| Designation                          | Name                 |
|--------------------------------------|----------------------|
| 1. Acting Managing Director          | Mr. John Onyango     |
| 2. Manager, Legal Services           | Mrs. Eunice Njuguna  |
| 3. Manager, Patents                  | Mr. David Njuguna    |
| 4. Assistant Manager, Administration | Mr. Samuel Ng'ethe   |
| 5. Assistant Manager, Finance        | CPA Caroline Mawathe |





### **(e) Fiduciary Oversight Functions of the Institute**

As part of corporate governance, the Institute's oversight role is discharged through the following Committees:

#### **(1) Finance and Administration Committee**

The roles of the Committee are:

- Approval of financial reports;
- Assessing and monitoring performance of the Institute as per the Strategic Plan and annual Performance Contract;
- Consideration and approval of the Institute's budget and procurement plan; and
- Advising the Institute on major capital expenditure projects.

#### **(2) Strategy and Human Resource Committee**

The roles of the Committee are:

- Reviewing the terms and conditions of Service for the Institute's employees;
- Carrying out recruitment and promotion of staff;
- Reviewing the Institute's human resource policies; and
- Advising the Board on the best human resource management practices.

#### **(3) Audit and Compliance Committee**

The roles of the Committee are:

- Corporate governance - provides support to the Board of Directors in reviewing the effectiveness of the Institute's corporate governance by ensuring the Institute's compliance with legal and regulatory provisions;
- Financial statements and reports - review the adequacy, reliability and accuracy of the financial statements and reports provided to the Board and other users of such information;
- External Audit - ensuring the management has arrangements to support the audit work of the Auditor-General, being fully briefed on all audit work relating to the Institute through reports by the Auditor-General describing any material issues raised by their internal control reviews, or by inquiry/ investigation by governmental or professional authorities; and
- Internal control, Risk Management and Internal Audit-Consider the effectiveness of the Institute's internal control systems established by Management to ensure compliance with policies, laws and regulations.





#### (4) Technical Committee

The roles of the Committee are:

- Monitor delivery of the Institute's mandate relating to the Constitution of Kenya, 2010, the Industrial Property Act and the Trade Marks Act;
- Monitor progress of implementation of the functions of the Institute relating to protection of industrial property rights, screening of technological transfer agreements and licences, promotion of innovativeness and inventiveness, industrial property information and training;
- Monitor development and review of the Institute's policy relating to the functions that create stakeholder value and ensure that statutory mandates are effectively fulfilled;
- Ensure that the implementation of the Institute's technical projects, programs and activities is done in line with the Institute's Strategic Plan;
- Ensure that technical operational strategies are based on the current social, economic and political factors and Kenya Vision 2030;
- Review systems as well as investments in new operational models to ensure efficient and effective service delivery;
- Monitor creation of partnerships and alliances with relevant collaborating institutions at national, regional and international levels for promotion of industrial property protection;
- Evaluate and monitor the performance of Technical Services Department; and
- Review proposals made for amendments to the Industrial Property Act and the Trade Marks Act.







**(f) The Institute's Headquarters**

KIPI Premises, Lavington, Along  
Kabarsian Avenue,  
Off Waiyaki Way,  
P.O. Box 51648 – 00200,  
City Square, Nairobi, Kenya

**(g) The Institute's Contacts**

Telephone: (254) 0206002210/11  
Fax: (254)0206006312  
Wireless: (254) 0202386220  
E-mail: [info@kipi.go.ke](mailto:info@kipi.go.ke)  
Website: [www.kipi.go.ke](http://www.kipi.go.ke)

**(h) The Institute's Bankers**

- (i) Kenya Commercial Bank Limited,  
Kipande House Branch,  
P.O. Box 30012 – 00100, Nairobi, Kenya
- (ii) National Bank of Kenya Limited,  
South C Branch,  
KEBS Compound, South C Nairobi,  
P.O. Box 38645 – 00100, Nairobi, Kenya

**(i) Independent Auditors**

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

**(j) Principal Legal Adviser**

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



## FIVE YEAR FINANCIAL REVIEW

## a) STATEMENT OF FINANCIAL PERFORMANCE

|                                 | 2018/19            | 2017/18            | 2016/17            | 2015/16            | 2014/15            |
|---------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                                 | KSh.               | KSh.               | KSh.               | KSh.               | KSh.               |
| Income from Fees                | 305,535,783        | 326,301,757        | 296,550,149        | 229,048,937        | 218,183,718        |
| GOK Grants                      | -                  | 10,290,595         | 8,228,754          | 3,000,000          | 15,000,000         |
| Other Incomes (Interest)        | 33,747,093         | 70,275             | 596,693            | 331,644            | 787,848            |
| <b>Total Revenue</b>            | <b>339,282,876</b> | <b>336,662,627</b> | <b>305,375,596</b> | <b>232,380,581</b> | <b>233,971,566</b> |
| <b>Less Expenses</b>            |                    |                    |                    |                    |                    |
| Hospitality                     | 15,470,614         | 15,431,715         | 13,048,894         | 9,566,173          | 9,682,083          |
| Board Expenses                  | 936,667            | 12,488,032         | 11,464,053         | 8,413,585          | 2,531,198          |
| Staff Costs                     | 150,231,082        | 161,343,070        | 108,854,411        | 103,660,509        | 109,018,331        |
| Repairs and Maintenance         | 9,350,930          | 8,673,795          | 9,476,491          | 9,817,003          | 10,319,542         |
| General Expenses                | 107,230,565        | 96,237,591         | 81,808,590         | 60,899,733         | 59,347,398         |
| Depreciation                    | 10,914,402         | 13,674,809         | 9,442,133          | 6,986,934          | 7,049,145          |
| <b>Total Operating Expenses</b> | <b>294,134,260</b> | <b>307,849,012</b> | <b>234,094,572</b> | <b>199,343,937</b> | <b>197,947,697</b> |
| <b>Surplus for the Period</b>   | <b>45,148,616</b>  | <b>28,813,615</b>  | <b>71,281,024</b>  | <b>33,036,644</b>  | <b>36,023,869</b>  |





## b) STATEMENT OF FINANCIAL POSITION

|                                        | 2018/19            | 2017/18            | 2016/17            | 2015/16            | 2014/15            |
|----------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                                        | KSh.               | KSh.               | KSh.               | KSh.               | KSh.               |
| <b>Current Assets</b>                  |                    |                    |                    |                    |                    |
| Cash and Cash Equivalents              | 121,266,769        | 132,012,259        | 239,013,108        | 190,540,165        | 50,086,397         |
| Receivables                            | 113,828,998        | 176,234,523        | 89,555,720         | 82,764,808         | 101,574,619        |
| Inventories                            | 15,611,152         | 12,751,198         | 18,883,558         | 9,521,427          | 12,100,828         |
| <b>Total Current Assets</b>            | <b>250,706,919</b> | <b>320,997,980</b> | <b>347,452,386</b> | <b>282,826,400</b> | <b>163,761,844</b> |
| <b>Non-current Assets</b>              |                    |                    |                    |                    |                    |
| Property, Plant and Equipment          | 452,012,845        | 438,141,444        | 405,022,511        | 399,009,017        | 398,434,542        |
| Intangible Assets                      | 49,956,657         | 29,812,546         | 2,199,275          | 1,334,865          | 1,906,950          |
| Library Books                          | 4,467,984          | 4,467,984          | -                  | -                  | -                  |
| <b>Total Non-Current Assets</b>        | <b>506,437,486</b> | <b>472,421,974</b> | <b>407,221,786</b> | <b>400,343,882</b> | <b>400,341,492</b> |
| <b>Total Assets</b>                    | <b>757,144,405</b> | <b>793,419,954</b> | <b>754,674,172</b> | <b>683,170,282</b> | <b>564,103,336</b> |
| <b>Capital and Reserves</b>            |                    |                    |                    |                    |                    |
| Capital Reserves                       | 611,636,760        | 611,636,760        | 611,636,760        | 566,748,514        | 480,718,212        |
| General Reserves                       | 142,597,619        | 171,387,027        | 142,573,412        | 115,957,768        | 82,921,124         |
| <b>Total Assets</b>                    | <b>754,234,379</b> | <b>783,023,787</b> | <b>754,210,172</b> | <b>682,706,282</b> | <b>563,639,336</b> |
| <b>Current Liabilities</b>             |                    |                    |                    |                    |                    |
| Trade & Other Payables                 | 464,000            | 464,000            | 464,000            | 464,000            | 464,000            |
| Contracted Services                    | 2,446,026          | 9,932,167          | -                  | -                  | -                  |
| <b>Total Current Liabilities</b>       | <b>2,910,026</b>   | <b>10,396,167</b>  | <b>464,000</b>     | <b>464,000</b>     | <b>464,000</b>     |
| <b>Total Capital &amp; Liabilities</b> | <b>757,144,405</b> | <b>793,419,954</b> | <b>754,674,172</b> | <b>683,170,282</b> | <b>564,103,336</b> |



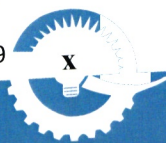


## II. THE BOARD OF DIRECTORS

The Institute did not have a Board of Directors during the financial year ended 30<sup>th</sup> June, 2019 as the term of majority members expired on 30<sup>th</sup> June, 2018.

## III. MANAGEMENT TEAM

| MANAGER                                                                                                                                                  | AREA OF RESPONSIBILITY                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <br><b>Mr. John Onyango</b><br>Acting Managing Director                 | Mr. John Onyango, who was born on 4 <sup>th</sup> November, 1965, is the Acting Managing Director. He holds a Bachelor of Commerce Degree from the University of Nairobi and previously worked with the Standard Bank of Kenya.                                                                                                                                                                                                                                                            |
| <br><b>Mrs. Eunice Njuguna</b><br>Manager, Legal Services             | Mrs. Eunice Njuguna, who was born on 17 <sup>th</sup> July, 1966, is in charge of the Legal Division that advises the Institute on compliance with all the relevant legislation. She is also the Institute Corporation Secretary and holds a Bachelor of Laws Degree, University of Nairobi, Diploma in Law, Kenya School of Law and Master of Laws Degree, University of Nairobi. She is a member of the Law Society of Kenya and the Institute of Certified Public Secretaries of Kenya. |
| <br><b>Mr. David Njuguna</b><br>Manager, Patents                      | Mr. David Njuguna, who was born on 8 <sup>th</sup> August, 1966, is in charge of the Patent Division that processes applications for grant and registration of patents, utility models and industrial designs. He holds a Bachelor's Degree in Science, University of Nairobi and a Master's Degree in Intellectual Property, University of Melbourne.                                                                                                                                     |
| <br><b>Mr. Samuel Ng'ethe</b><br>Assistant Manager,<br>Administration | Mr. Samuel Ng'ethe, who was born on 31 <sup>st</sup> August, 1969, oversees the overall management of human resource and administration services. He holds a Bachelor's Degree in Administration, Master's Degree in Arts and a Higher National Diploma in Human Resource Management.                                                                                                                                                                                                      |







**CPA Caroline Mawathe**  
**Assistant Manager, Finance**

Miss Caroline Mawathe, who was born on 29<sup>th</sup> December, 1969, is in charge of Supervision of Accounting Activities. She is a holder of CPA K, a Bachelor's Degree in Commerce and a Masters Degree in Business Administration. She is a member of the Institute of Certified Public Accountants of Kenya. She is currently pursuing her PhD.



#### IV. CHAIRMAN'S STATEMENT

On behalf of the Board, I am delighted to present the annual Report and Financial Statements of Kenya Industrial Property Institute for the financial year 2018/2019.

During the last financial year, the Institute realised significant achievements. The revenue during this financial year revenue increased from KSh.326,372,032 in the period ended 30<sup>th</sup> June, 2018 to KSh.339,282,876 in the financial year 2018/2019. This revenue increase is linked to the increased number of applications received due to accelerated Intellectual Property awareness campaigns by the Institute.

The mandate of the Institute is to promote inventive and innovative activities, facilitate the acquisition of technology through registration and regulation of patents, utility models, technovations, industrial designs and trade marks. To deliver on this, the Institute has developed a strategic plan that will contribute to high and sustainable socio-economic development in line with national development goals espoused in Kenya Vision 2030. Appropriate structures and systems have been developed and essential staff recruited to enable the realization of the vision, mission and strategic objectives of the Institute.

Every year, the Board and Management develop and sign annual performance contract as a means of delivering on the strategic goals as contained in the strategic plan. In line with its mandate, the Institute continues to play a leading role in supporting Kenya's innovation performance, through delivery of quality and timely intellectual property (IP) rights and promoting utilization of IP rights by disseminating IP information.

The Institute has transformed itself from one that was wholly dependent on funding from the Exchequer to one point where most of the activities are met from internally generated sources of finance. Employees now enjoy better terms and conditions of service through better remuneration and work environment including necessary working tools. The Institute has now relocated to its new premises in Lavington after completion of renovation and refurbishment works.

As part of creating awareness on intellectual property, the Institute engaged in a number of outreach and sensitization activities during the year under review. This included participation in national shows, County investment conferences, University exhibitions and undertaking decentralization of IP services in partnership with the parent Ministry of Industry, Trade and Co-operatives as well as County Industrialization and Development Officers (CIDO's) and County Enterprise and Development Officers (CEDO's).

  
**Ahmed Issack Hassan**  
**Chairman**

Financial statements for Year Ended 30th June, 2019







## V. REPORT OF THE MANAGING DIRECTOR

Kenya Industrial Property Institute was established in 1990 through an Act of Parliament to discharge the mandate of industrial property administration. The core functions of the Institute include:

- Consider applications for, grant and registration of industrial property rights;
- Screen technology transfer agreements and licences;
- Provide to the public, industrial property information for technological and economic development;
- Promote inventiveness and innovativeness in Kenya; and
- Organize and conduct training, competitions and awards relating to industrial property matters.

Since its establishment, the Institute has continuously endeavoured to offer the best services to its customers with the number of applications for registration dramatically increasing over the years. The introduction of automation has led to quality processing of applications resulting into growth in revenues. The Institute created an outreach unit responsible for creating public awareness on intellectual property. The unit carries out campaigns through different channels including shows, seminars, workshops, exhibitions, and media (both print and electronic) among others. For the period under review, the Institute received 952 new patent applications and processed to completion 408 applications. New applications for trade marks were 5136. A total of 4811 trade mark applications were registered and clients given technical advice.

To support this growth, the Institute has invested in the acquisition of new premises to accommodate the growing number of staff and planned for digitization of its processes as a means of enhancing efficiency, productivity and quality of services offered. This includes introduction and installation of an Enterprise Resource Planning (ERP) system making it possible to receive and process applications electronically. The Institute is equipping its data centre with modern servers and IT infrastructure to improve the service delivery to its customers. An Electronic Document Management System (EDMS) has been introduced for patents and trade mark divisions to fasten the capture of information with the support of World Intellectual Property Organization (WIPO).

In terms of financial performance, the Institute has achieved a steady growth in revenue over the years since delinking from mainstream Government to become a State Corporation in 2005/2006. Revenue collection stands at KSh.339,282,876 in the financial year 2018/2019 against expenditure of KSh.294,134,260. Much of the expenditure is on personal emoluments as a result of recruitment of



more staff and improvement in terms and conditions of service as well as on operational and administrative expenses.

Despite the achievements, KIPi still faces the challenges of modern office accommodation as it awaits completion of refurbishment and renovation of the new building, capacity building, retention of human resource through competitive compensation scheme and creation of IP awareness. Some of these challenges have affected the achievement of the Institute's Strategic Plan for 2018-2022 whose objectives are:

- To facilitate acquisition of industrial property rights;
- To strengthen the IP legal and policy framework;
- To promote commercialization of Industrial Property;
- To provide IP information to the public;
- To inculcate a culture that promotes and respects creativity and innovativeness;
- To improve productivity and competitiveness of MSMEs;
- To enhance corporate image of the Institute;
- To attract, develop and retain competent staff;
- To improve mobilization and management of financial resources; and
- To strengthen internal systems and processes for efficient service delivery.

**Mr. John Onyango**  
**Acting Managing Director**







## VI. CORPORATE GOVERNANCE STATEMENT

Corporate governance is the system of clearly defined authorities and responsibilities, which results in the establishment, operation, and maintenance of the system of internal control that is regularly tested to ensure effectiveness. The system enables the Board to ensure that the Institute runs smoothly.

The Institute places a great deal of importance on robust corporate governance practices and is committed to applying the highest standards of business integrity and professionalism in all activities. It has also introduced individual targets and performance indicators.

The Board has formulated and applies sound internal corporate governance guidelines, which address the responsibilities of the Board, Management and the Staff.

The Board has set up four key Board committees to help in the implementation of its policy guidelines and strategic plan as follows:

- (i) Strategy and Human Resource Committee;
- (ii) Audit and Compliance Committee;
- (iii) Finance and Administration Committee; and
- (iv) Technical Committee.

These Committees meet when there is need and are chaired by selected Chairmen who are Board members. The Committees report their findings to the Board for further deliberations.

The Board meets regularly in compliance with the provisions of the Industrial Property Act.

**Ahmed Issack Hassan**  
**Chairman**





## VII. REPORT OF THE DIRECTORS

The Directors submit their report together with financial statements for the financial year ended 30<sup>th</sup> June, 2019 which shows the state of Institute's affairs.

### Principle Activities

The principle Activities of the Institute include:

- Consider applications for, grant and registration of industrial property rights;
- Screen technology transfer agreements and licences;
- Provide to the public, industrial property information for technological and economic development;
- Promote inventiveness and innovativeness in Kenya; and
- Organize and conduct training, competitions and awards relating to industrial property matters.

### Results

The results of Kenya Industrial Property Institute for the financial year ended 30<sup>th</sup> June, 2019 are as follows:

|                                      | <b>2018/19</b>    | <b>2017/18</b>    |
|--------------------------------------|-------------------|-------------------|
|                                      | <b>KSh.</b>       | <b>KSh.</b>       |
| Total Income for the Year            | 339,282,876       | 336,662,627       |
| Less: Total Expenditure for the Year | 294,134,260       | 307,849,012       |
| Operating Surplus                    | <b>45,148,616</b> | <b>28,813,615</b> |

### Appointment of Board of Directors

Appointment of the Board members is done by the Cabinet Secretary in exercise of the powers conferred by section 6 of the Industrial Property Act. The Chairman to the Board is appointed by the Cabinet Secretary and holds Office for a period of three years from the date of appointment. Other members of the Board are directly nominated by their representative organizations to the Board. The nominees' names are then forwarded to the Cabinet Secretary for the Ministry of Industry, Trade and Co-operatives for appointment through a Kenya Gazette Notice.







### **Membership of Board of Directors**

The Institute has thirteen (13) members of the Board of Directors as stipulated in the Industrial Property Act. The members are drawn from the following organisations:

- a) Kenya Medical Research Institute;
- b) Kenya Industrial Research and Development Institute;
- c) Institute of Engineers of Kenya;
- d) Law Society of Kenya;
- e) State Law Office;
- f) The National Treasury;
- g) Kenya National Federation of Jua Kali Artisans;
- h) Ministry of Industry, Trade and Co-operatives;
- i) National Commission for Science, Technology and Innovations; and
- j) Kenya Association of Manufacturers.

### **Board of Directors' Mandate**

The Board has set generally accepted reporting standards for the development and management of accounting and financial systems of the Institute and in particular performs the following functions:

- a) Prescribes the minimum standards of maintenance of proper books of accounts by the Institute;
- b) Prescribes sound internal audit procedures that are compliant with the set standards;
- c) Performs any other functions related to advancing financial and accounting systems management and reporting by the Institute; and
- d) Ensures that the standards adopted by the Board promote transparency and other constitutional values and principles in effective, prudent and efficient management of revenue, expenditure, assets and liabilities of the Institute.

### **Auditors**

The Auditor General is responsible for the statutory audit of the Institute in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act, 2015 to nominate auditors to carry out the audit on his behalf.

**Ahmed Issack Hassan**  
**Chairman**





## VIII. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 83 of the Public Finance Management Act 2012 and Section 14 of the State Corporations Act require the directors to prepare the financial statements in respect of the Institute, which give a true and fair view of the affairs of the Institute at the end of a financial year. The directors are also charged with the responsibility of ensuring that the Institute maintains proper accounting records, which disclose, with reasonable accuracy, the financial position of the Institute. Equally, the directors are also responsible for safeguarding the assets of the Institute, selecting and applying appropriate accounting policies and also making accounting estimates that are reasonable and applicable to the Institute circumstances.

To this end, the directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgement and estimates in conformity with International Public Sector Accounting Standards and in the manner required by the Public Finance Management Act and the State Corporations Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial transactions of the financial year ended 30<sup>th</sup> June, 2019 and the Institutes 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 financial statements as well as adequate 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.

The directors therefore, have the pleasure of submitting the report, together with the financial statements for the financial year ended 30<sup>th</sup> June, 2019.

### Approval of the Financial Statements

The Institute's financial statements were approved by the directors on 05 July 2021 and signed on its behalf.

  
**Director**  
T.O. ALANDO

  
**Director**  
K.M. Muthiga







## **IX. MANAGEMENT DISCUSSION AND ANALYSIS**

### **SECTION A**

#### **Kenya Industrial Property Institute's Operational and Financial Performance**

The Institute targeted to collect KSh.340,000,000 as per the Performance Contract. The actual collection was KSh.339,212,930 in the financial year, of which the accrued revenue amounted to KSh.17,030,579 which was recognized as income earned and also treated as receivables.

### **SECTION B**

#### **Kenya Industrial Property Institute's Compliance with Statutory Requirements**

The Institute complied with statutory requirements by withholding and remitting VAT at 6% as required.

From the payroll, the Institute makes statutory deductions and remits them to various institutions including KRA, NSSF, HELB and NITA.

### **SECTION C**

#### **Key Projects and Investment Decisions Kenya Industrial Property Institute is Planning/Implementing**

The Institute is undertaking the following projects in 2018/2019 financial year;

- (i) Refurbishment of the new premises;
- (ii) Decentralization of IP; and
- (iii) Digitization of KIPi systems.

### **SECTION D**

#### **Major Risks Facing Kenya Industrial Property Institute**

Kenya Industrial Property Institute is a regulatory body. Most of the clients are foreigners and fee is charged in local and foreign currency (USD.) Any economic slump which affects the exchange rate is a risk to the Institute.





## REPUBLIC OF KENYA



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Website: [www.oagkenya.go.ke](http://www.oagkenya.go.ke)

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### **REPORT OF THE AUDITOR-GENERAL ON KENYA INDUSTRIAL PROPERTY INSTITUTE FOR THE YEAR ENDED 30 JUNE, 2019**

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

##### **Opinion**

I have audited the accompanying financial statements of Kenya Industrial Property Institute set out on pages 1 to 24, which comprise the statement of financial position as at 30 June, 2019, and statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Kenya Industrial Property Institute as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with international Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya Industrial Property Institute Act, 2001 and the Public Finance Management Act, 2012.

##### **Basis of Opinion**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Industrial Property Institute 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 opinion.

##### **Emphasis of Matter**

As disclosed under Note 17 to the financial statements, the property, plant and equipment balance of Kshs.452,012,845 as at 30 June, 2019 includes a combined figure on lands and buildings of Kshs.412,088,054. The Institute has not been providing for depreciation of the building in the financial statements contrary to Section 74 of the International Public Sector Accounting Standards IPSAS 17 which states that land and buildings are

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*Report of the Auditor-General on Kenya Industrial Property Institute for the year ended 30 June, 2019*







separable assets and are accounted for separately, even when they are acquired together. This is because land has an unlimited useful life and therefore is not depreciated but the buildings have a limited useful life and therefore are depreciable assets. Further, an increase in the value of land on which the building stands does not affect the determination of the depreciable amount of the building.

My opinion is not modified in respect of this matter.

### **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.

## **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, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

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

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

### **Conclusion**

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

### **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 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 Institute's 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.

**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**10 February, 2021**



**X. STATEMENT OF FINANCIAL PERFORMANCE FOR THE PERIOD ENDED 30<sup>TH</sup> JUNE, 2019**

|                                               | NOTES | 2018/19            | 2017/18            |
|-----------------------------------------------|-------|--------------------|--------------------|
|                                               |       | KSh.               | KSh.               |
| <b>Revenue from Exchange Transactions</b>     |       |                    |                    |
| Income from Fees                              | 3     | 305,535,783        | 297,523,179        |
| <b>Revenue from Non-Exchange Transactions</b> |       | -                  |                    |
| GOK Grants - Recurrent                        | 3     | -                  | -                  |
| GOK Grants - Development                      | 3 & 4 | -                  | 10,290,595         |
| <b>Other Incomes</b>                          |       |                    |                    |
| Fees (ARIPO)                                  | 5     | 33,677,147         | 28,778,578         |
| Interest Income                               | 5     | 69,946             | 70,275             |
| <b>Total Revenue</b>                          |       | <b>339,282,876</b> | <b>336,662,627</b> |
| <b>Expenses</b>                               |       |                    |                    |
| Employee Costs                                | 6     | 150,231,082        | 161,343,070        |
| Hospitality                                   | 7     | 15,470,614         | 15,431,715         |
| Board Expenses                                | 8     | 936,667            | 12,488,032         |
| Depreciation and Amortization Expense         | 9     | 10,914,402         | 13,674,809         |
| Repairs and Maintenance                       | 10    | 9,350,930          | 8,673,795          |
| General Expenses                              | 11    | 107,230,565        | 96,237,591         |
| <b>Total Expenses</b>                         |       | <b>294,134,260</b> | <b>307,849,012</b> |
| <b>Other Gains/(Losses)</b>                   |       | -                  | -                  |
| <b>Surplus/Deficit Before Tax</b>             |       | <b>45,148,616</b>  | <b>28,813,615</b>  |
| <b>Surplus/Deficit for the Period</b>         |       | <b>45,148,616</b>  | <b>28,813,615</b>  |

The notes set out on pages 6 to 24 form an integral part of the Financial Statements.





**XI. STATEMENT OF FINANCIAL POSITION AS AT 30<sup>TH</sup> JUNE, 2019**

| <b>Assets</b>                           | <b>NOTES</b> | <b>2018/19</b>     | <b>2017/18</b>     |
|-----------------------------------------|--------------|--------------------|--------------------|
| <b>Current Assets</b>                   |              | <b>KSh.</b>        | <b>KSh.</b>        |
| Cash and Cash Equivalents               | 12 & 13      | 121,266,769        | 132,012,259        |
| Receivables                             | 14           | 113,828,998        | 176,234,523        |
| Inventories                             | 16           | 15,611,152         | 12,751,198         |
| <b>Sub-Total</b>                        |              | <b>250,706,919</b> | <b>320,997,980</b> |
| <b>Non-current Assets</b>               |              |                    |                    |
| Property, Plant and Equipment           | 17           | 452,012,845        | 438,141,444        |
| Intangible Assets                       | 18           | 49,956,657         | 29,812,546         |
| Library Books                           | 16           | 4,467,984          | 4,467,984          |
| <b>Sub-total</b>                        |              | <b>506,437,486</b> | <b>472,421,974</b> |
| <b>Total Assets</b>                     |              | <b>757,144,405</b> | <b>793,419,954</b> |
| <b>Liabilities</b>                      |              |                    |                    |
| <b>Current Liabilities</b>              |              |                    |                    |
| Trade and Other Payables                | 19           | 2,910,026          | 10,396,167         |
| <b>Total Liabilities</b>                |              | <b>2,910,026</b>   | <b>10,396,167</b>  |
| <b>Net Assets</b>                       |              | <b>754,234,379</b> | <b>783,023,787</b> |
| Reserves                                | 20           | 611,636,760        | 611,636,760        |
| Accumulated Surplus                     | 21           | 142,597,619        | 171,387,027        |
| <b>Total net Assets and Liabilities</b> |              | <b>754,234,379</b> | <b>783,023,787</b> |

The Financial Statements set out on pages 1 to 5 were signed on behalf of the Board by

**Mr. John Onyango**  
Acting Managing Director

**CPA Caroline Mawathe**  
Assistant Manager-Finance

**Ahmed Issack Hassan**  
Chairman





**XII. STATEMENT OF CHANGES IN NET ASSETS FOR THE PERIOD ENDED 30<sup>TH</sup> JUNE, 2019****Attributable to the Owners of the Controlling Entity Reserves**

|                                      | Note      | Capital Replacement<br>Development Reserve | Reserve Fund       | Minority<br>Interest | Total               |
|--------------------------------------|-----------|--------------------------------------------|--------------------|----------------------|---------------------|
|                                      |           | KSh.                                       | KSh.               | KSh.                 | KSh.                |
| <b>Balance as at 1st July, 2018</b>  | <b>20</b> | 611,636,760                                | 142,573,412        | -                    | 754,210,172         |
| Surplus/(deficit) for the Period     | <b>21</b> | -                                          | 28,813,615         |                      | 28,813,615          |
| Transfers from Reserves              |           |                                            |                    |                      | -                   |
| Transfers from Special Fund          |           |                                            |                    |                      | -                   |
| - Operations                         |           |                                            |                    | -                    | -                   |
| - Deposit                            |           |                                            |                    | -                    | -                   |
| Transfers from Reserves to Deposit   |           |                                            | -                  |                      | -                   |
| Development Grants                   |           |                                            | -                  |                      | -                   |
| <b>Balance as at 1st July, 2018</b>  | <b>20</b> | <b>611,636,760</b>                         | <b>171,387,027</b> | <b>-</b>             | <b>783,023,787</b>  |
| Surplus/Deficit for the Period       | <b>21</b> |                                            | 45,148,616         |                      | <b>45,148,616</b>   |
| Transfers from Reserves              |           | -                                          | (61,719,515)       |                      | <b>(61,719,515)</b> |
| Development Grants                   |           | -                                          | (12,218,509)       |                      | <b>(12,218,509)</b> |
| Prior Year Adjustment                |           |                                            |                    |                      |                     |
| <b>Balance as at 30th June, 2019</b> | <b>20</b> | <b>611,636,760</b>                         | <b>142,597,619</b> | <b>-</b>             | <b>754,234,379</b>  |
| <b>Balance as at 30th June, 2018</b> |           | <b>611,636,760</b>                         | <b>171,387,027</b> | <b>-</b>             | <b>783,023,787</b>  |

**Notes to the Statement of Changes in Net Assets**

The changes in the net assets was as a result of the additions from the surplus realized during the period ended 30<sup>th</sup> June, 2019 and an adjustment in respect of Receivable whose accrued income was recognized and credited in the statement of financial performance. It was later realized that the figure of KSh.12,218,509 from trade mark renewals was overstated thereby necessitating adjustments. During the year under review KSh.61,719,515 was transferred from reserves to the deposit for the purpose of undertaking development projects initiated by the Institute.

**Development Grants**

The Institute did not receive development grants during the period ended 30<sup>th</sup> June, 2019, but has been working with the budget approved in 2015/2016 by rolling over the funds over a period of time upto the time the project will be completed.

**XIII. STATEMENT OF CASH FLOWS AS AT 30<sup>TH</sup> JUNE, 2019**

|                                                              | NOTES         | 2018/19             | 2017/18              |
|--------------------------------------------------------------|---------------|---------------------|----------------------|
|                                                              |               | KSh.                | KSh.                 |
| <b>Cash Flows from Operating Activities</b>                  |               |                     |                      |
| <b>Receipts</b>                                              |               |                     |                      |
| Government Grants and Subsidies                              | 3             | -                   | 10,290,595           |
| Rendering of Services                                        |               | 322,182,351         | 297,523,179          |
| Sale of Goods                                                |               | -                   | -                    |
| Finance Income                                               | 5             | 69,946              | 70,275               |
| Other Income                                                 |               | -                   | -                    |
| <b>Total Receipts</b>                                        |               | <b>322,252,297</b>  | <b>307,884,049</b>   |
| <b>Payments</b>                                              |               |                     |                      |
| Compensation of Employees                                    | 6             | 150,231,082         | 161,343,070          |
| Goods and Services                                           | 7, 8, 10 & 11 | 132,988,776         | 132,831,133          |
| Finance Cost                                                 |               | -                   | -                    |
| Other Payments                                               |               | -                   | -                    |
| <b>Total Payments</b>                                        |               | <b>283,219,858</b>  | <b>294,174,203</b>   |
| <b>Net Cash Flows from Operating Activities</b>              |               | <b>39,032,439</b>   | <b>13,709,846</b>    |
| <b>Cash Flows from Investing Activities</b>                  |               |                     |                      |
| Purchase of Property, Plant, Equipment and Intangible Assets | 17 & 18       | (40,117,844)        | (74,407,013)         |
| Proceeds from Sale of Property, Plant and Equipment          |               | -                   | -                    |
| Net Decrease/Increase in Current Assets                      |               | 52,059,430          | (70,614,276)         |
| Increase in Investments                                      |               |                     |                      |
| <b>Net Cash Flows used in Investing Activities</b>           |               | <b>11,941,586</b>   | <b>(145,021,289)</b> |
| <b>Cash Flows from Financing Activities</b>                  |               |                     |                      |
| Proceeds from Borrowings/Other Accounts                      |               | -                   | 24,310,594           |
| Decrease/Increase in Deposit (Development Projects)          |               | -                   | -                    |
| Transfers from Reserves (Development Projects)               |               | (61,719,515)        | -                    |
| <b>Net Cash Flows used in Financing Activities</b>           |               | <b>(61,719,515)</b> | <b>24,310,594</b>    |
| <b>Net Increase/Decrease in Cash and Cash Equivalents</b>    | 12            | <b>(10,745,490)</b> | <b>(107,000,849)</b> |
| <b>Cash and Cash Equivalents at 1st July, 2018</b>           | 12            | <b>132,012,259</b>  | <b>239,013,108</b>   |
| <b>Cash and Cash Equivalents at 30th June, 2019</b>          | 12            | <b>121,266,769</b>  | <b>132,012,259</b>   |





## XIV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT

|                                             | Original Budget    | Adjustments | Final Budget       | Actual on Comparable Basis | Performance Difference |
|---------------------------------------------|--------------------|-------------|--------------------|----------------------------|------------------------|
|                                             | KSh.               | KSh.        | KSh.               | KSh.                       | KSh.                   |
| <b>Revenue</b>                              |                    |             |                    |                            |                        |
| Government Grants and Subsidies - Recurrent | -                  | -           | -                  | -                          | -                      |
| - Development                               | -                  | -           | -                  | -                          | -                      |
| Rendering of Services                       | 319,000,000        | -           | 319,000,000        | 305,535,783                | (13,464,217)           |
| Finance Income                              | -                  | -           | -                  | 69,946                     | 69,946                 |
| Other Incomes (ARIPO)                       | -                  | -           | -                  | 33,677,147                 | 33,677,147             |
| <b>Total Income</b>                         | <b>319,000,000</b> | <b>-</b>    | <b>319,000,000</b> | <b>339,282,876</b>         | <b>20,282,876</b>      |
| <b>Expenses</b>                             |                    |             |                    |                            |                        |
| Compensation of Employees                   | 178,650,000        | -           | 178,650,000        | 150,231,082                | 28,418,918             |
| Goods and Services                          | 140,350,000        | -           | 140,350,000        | 132,988,776                | 7,361,224              |
| Other Provisions (Dep)                      | -                  | -           | -                  | 10,914,402                 | (10,914,402)           |
| <b>Total Expenditure</b>                    | <b>319,000,000</b> | <b>-</b>    | <b>319,000,000</b> | <b>294,134,260</b>         | <b>24,865,740</b>      |
| <b>Surplus for the Period</b>               |                    |             |                    | <b>45,148,616</b>          | <b>45,148,616</b>      |
| <b>Development Grants</b>                   |                    |             |                    |                            |                        |
|                                             | -                  | -           | -                  | -                          | -                      |

## NOTES TO THE QUARTERLY STATEMENT OF COMPARISON OF BUDGET AND ACTUAL PERFORMANCE

## A.I.A.

The targeted budget collection by the Institute was KSh.319,000,000. However, the actual collection was KSh.339,212,930. The Institute over-collected by KSh.20,282,876 and this was attributed to the accelerated process of trade marks renewal and processing of new applications. The Institute could not ascertain with reasonable accuracy the accrued income from African Regional Office and hence the same was not reflected in the yearly performance.

**Compensation of Employees**

The budget for the staff cost amounted to KSh.178,650,000. There was no revision in staff costs during the period ended 30<sup>th</sup> June, 2019. The Institute's expenditure for the period was KSh.150,231,082 which was below the period budget by KSh.28,418,918 for the reason that the several vacant posts are yet to be filled up.

**Provision of Goods and Services**

The Institute budgeted for KSh.140,350,000 to be used on payment of expenses on provision of goods and services. The Institute eventually utilized KSh.132,988,776 on payment of goods and services leading to an under-absorption of KSh.7,361,224. The overall budget for the Institute was however, not exceeded.





## XV. NOTES TO THE FINANCIAL STATEMENTS

### 1. Statement of Compliance and Basis of Preparation

The Institute's financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, the Institute's functional and reporting currency. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis. The Institute complied with IPSAS from 2013/2014 following the gazettelement of the Public Sector Accounting Standards Board (PSASB) which was established by Public Finance Management Act No. 18 on 24<sup>th</sup> July, 2012. PSASB issued financial reporting standards and guidelines to be adopted by State Corporations and other Public Sector entities.

### 2. Summary of Significant Accounting Policies

#### a) Revenue Recognition

##### Revenue from Exchange Transactions

##### Fees

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

##### Interest Income

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

#### b) Budget Information

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





reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

### c) Property, Plant and Equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Institute recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

### d) Intangible Assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or infinite.

### e) Financial Instruments

There was no investment in form of held-to-maturity instruments that would yield any fixed or determinable receipts during the reporting period.

### f) Financial Liabilities

#### Initial Recognition and Measurement

Financial liabilities within the scope IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Institute determines the classification of its financial liabilities at initial recognition.

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





#### g) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition. After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Institute.

#### h) Provisions

Provisions are recognized when the Institute has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

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

#### i) Contingent Liabilities

The Institute held only two claim payable in form of audit fees and retention money amounting to KSh.2,910,026. The provision has been made in these financial statements for the amount. Therefore, Management is of the opinion that no significant liabilities will arise that may affect the Financial Statements after the reporting date.

#### j) Contingent Assets

The Institute does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within its control in the notes to the financial statements. Contingent assets are assessed





continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

#### **k) Nature and Purpose of Reserves**

The Institute creates and maintains reserves in terms of specific requirements.

#### **l) Changes in Accounting Policies and Estimates**

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

#### **m) Employee Benefits**

##### **Retirement Benefit Plans**

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

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

#### **n) Foreign Currency Transactions**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction net of the bank commission. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.





#### **o) Related Parties**

The related parties to the Institute are the Government, key management staff members and the Board of Directors. The Institute did not have Board members due to expiry of their term and therefore, the Financial Statements do not include any outstanding balances relating to transactions entered into with third parties.

#### **p) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash on hand, cash at bank, and cash in the MPESA line as at the end of the quarter, and short term cash imprests and advances to staff members which were not surrendered or accounted for at the end of the quarter.

#### **q) Comparative Figures**

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

#### **r) Significant Judgments and Sources of Estimation Uncertainty**

The Institute is required to make judgements and assumptions that would affect the reported amounts of revenues, expenses, assets and liabilities and also the disclosure of contingent liabilities in line with International Public Sector Standards (IPSAS). Management has no reason to believe that there would be any subsequent events that would significantly affect the values of the revenues, expenses, assets and liabilities after the quarterly financial statements report and therefore such estimates and assumptions were not made at the reporting date as there were no significant risks that would have caused any material adjustment to the carrying amounts of the assets and liabilities within the next quarterly performance.

#### **s) Government Grants**

##### **Recurrent Grants**

Recurrent grants from the Government are accounted for under the Income approach where they are recognized as income over the period necessary to match them with the related assets which they are intended to compensate on a systematic basis.

##### **Development Grants**

The Institute did not receive any development grants during the quarter ended 30<sup>th</sup> June, 2019, but has been working with the budget approved in 2015/2016 by rolling over the funds over a period of time upto the time the project is completed.





#### t) Subsequent Events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the period ended 30<sup>th</sup> June, 2019.

#### u) Risks

For the Institute to achieve its mandate effectively, measures have been put in place to seal off leakages and avoid the would-be inherent risks. Risk management plays a major role in financial planning and hence aids in the attainment of the organization goals. To proactively mitigate against the risks, the risks management has been tied to the organization's strategic plan.

- Operational risks – these are risks of loss as result of system failure, human error and fraud. The controls that the Management has put in place to contain these include;
  - (i) Strong internal control systems;
  - (ii) Authorization level;
  - (iii) Impact assessment procedures;
  - (iv) Internal audit.
- Liquidity risk –these risks relate to inability to realize sufficient cash to meet commitments. To address this risk, Management has adopted a prudent management of its cash flows. Investment of surplus cash in low risk Government securities has also been a policy of Management.

**3. Revenue From Transactions**

|                                               | 2018/2019          | 2017/2018          |
|-----------------------------------------------|--------------------|--------------------|
|                                               | KSh.               | KSh.               |
| <b>Revenue from Exchange Transactions</b>     |                    |                    |
| <b>Operating Income</b>                       |                    |                    |
| Local Generated Income                        | 216,023,272        | 210,577,057        |
| Fees from WIPO                                | 89,512,511         | 86,946,122         |
| <b>Sub-Total</b>                              | <b>305,535,783</b> | <b>297,523,179</b> |
| <b>Revenue from Non-Exchange Transactions</b> |                    |                    |
| GOK Grants - Development                      | -                  | 10,290,595         |
| Fees from ARIPO                               | 33,677,147         | 28,778,578         |
| Interest Income                               | 69,946             | 70,275             |
| <b>Total Revenue from Transactions</b>        | <b>339,282,876</b> | <b>336,662,627</b> |

**4. G.O.K. Grants**

| Name of Entity Sending the Grants                                         | Amount Recognized to Statement of omprehensive Income | Amount Deferred /Capital Development | Total Development Grants Year 2018/2019 | Cummulative Expenditure for Year 2018/2019 |
|---------------------------------------------------------------------------|-------------------------------------------------------|--------------------------------------|-----------------------------------------|--------------------------------------------|
|                                                                           | KSh.                                                  | KSh.                                 | KSh.                                    | KSh.                                       |
| Ministry of Industry, Trade & Co-operatives - Development Recurent Grants | -                                                     | 55,316,075                           | -                                       | 119,683,925                                |
| Ministry of Industry, Trade & Co-operatives - Recurrent Grants            | -                                                     | -                                    | -                                       | -                                          |
| <b>Total</b>                                                              | <b>-</b>                                              | <b>55,316,075</b>                    | <b>-</b>                                | <b>119,683,925</b>                         |

The operating income consists of the fees received in respect of registration of trade marks and grants of patents rights which form the core activities of the Institute.

The Institute did not receive any grants during the period ended 30<sup>th</sup> June, 2019 from the Ministry of Industry, Trade and Co-operatives.



**5. Other Incomes**

|                            | <b>2018/19</b>    | <b>2017/18</b>    |
|----------------------------|-------------------|-------------------|
|                            | <b>KSh.</b>       | <b>KSh.</b>       |
| <b>Other Incomes</b>       |                   |                   |
| ARIPO & WIPO               | 33,677,147        | 28,778,578        |
| Other Incomes (Interests)  | 69,946            | 70,275            |
| <b>Total Other Incomes</b> | <b>33,747,093</b> | <b>28,848,853</b> |

The Institute earns fees from the African Regional Intellectual Property Organisation which is treated by the Institute as Other Operating Income. In the period ended 30<sup>th</sup> June, 2019, the Institute had received KSh.21,538,558 as fees earned on behalf of the Institute, while KSh.12,138,589 was still outstanding as at the closure of the financial year.

**6. Employee Costs**

|                                 | <b>2018/19</b>     | <b>2017/18</b>     |
|---------------------------------|--------------------|--------------------|
|                                 | <b>KSh.</b>        | <b>KSh.</b>        |
| Salaries & Wages                | 73,883,200         | 81,163,948         |
| Contribution to Pension Schemes | 10,290,801         | 11,690,176         |
| Housing Allowance               | 48,956,171         | 53,356,052         |
| Social Contributions            | 192,400            | 202,700            |
| Medical                         | 16,908,510         | 14,930,194         |
| <b>Total Employee Costs</b>     | <b>150,231,082</b> | <b>161,343,070</b> |

These are costs relating to the employee salaries, wages, pension and medical expenses incurred during the quarter.

During the period ended 30<sup>th</sup> June, 2019, the Institute incurred KSh.150,231,082 as staff costs on salaries and other allowances. The Institute paid allowances and salaries amounting to KSh.28,160,400 to the key staff members with the balance of KSh.94,678,971 being paid to the rest of the support staff members. The Institute also incurred a total of KSh.27,391,711 on staff pension schemes and medical expenses.

**7. Hospitality Costs**

|                                    | 2018/19           | 2017/18           |
|------------------------------------|-------------------|-------------------|
|                                    | KSh.              | KSh.              |
| Hospitality, Supplies and Services | 15,470,614        | 15,431,715        |
| <b>Total Hospitality Costs</b>     | <b>15,470,614</b> | <b>15,431,715</b> |

The above costs under hospitality amounting to KSh.15,470,614 relates to costs incurred on seminars, workshops and provision of staff tea during the quarter under review.

**8. Board Expenses**

|                             | 2018/19        | 2017/18           |
|-----------------------------|----------------|-------------------|
|                             | KSh.           | KSh.              |
| Chairman's Honoraria        | 936,667        | -                 |
| Board Expenses on Retreats  | -              | 1,510,005         |
| Other Board Allowances      | -              | 10,978,027        |
| <b>Total Board Expenses</b> | <b>936,667</b> | <b>12,488,032</b> |

The Institute only incurred KSh.936,667 which was paid as honoraria to the Board Chairman. Other Board members are yet to be appointed.

**9. Depreciation and Amortization Expenses**

|                                            | 2018/19           | 2017/18           |
|--------------------------------------------|-------------------|-------------------|
|                                            | KSh.              | KSh.              |
| Property, Plant & Equipment                | 10,067,263        | 12,464,610        |
| Intangible Assets                          | 847,139           | 1,210,199         |
| <b>Total Depreciation and Amortization</b> | <b>10,914,402</b> | <b>13,674,809</b> |

The Institute charges depreciation of its assets on reducing balance method based on the following rates:

|                         |       |
|-------------------------|-------|
| Motor Vehicles          | 25%   |
| Computers               | 30%   |
| Furniture and Equipment | 12.5% |
| Intangible Assets       | 30%   |

It is the policy of the Institute not to charge any depreciation on land and building.







## 10. Repairs and Maintenance

These are costs relating to repairs to motor vehicles, computers, equipment and machinery and the general Maintenance of the office compound.

|                                      | 2018/19          | 2017/18          |
|--------------------------------------|------------------|------------------|
|                                      | KSh.             | KSh.             |
| Vehicles                             | 3,166,328        | 2,523,957        |
| Other Assets                         | 6,184,602        | 6,149,838        |
| <b>Total Repairs and Maintenance</b> | <b>9,350,930</b> | <b>8,673,795</b> |

## 11. General Expenses

The following are included in General Expenses

|                                                         | 2018/19            | 2017/18           |
|---------------------------------------------------------|--------------------|-------------------|
|                                                         | KSh.               | KSh.              |
| Utilities Supplies & Service - Water & Electricity      | 2,453,930          | 2,575,288         |
| Telecommunication, Supplies & Services                  | 3,906,251          | 3,316,606         |
| Travel & Subsistence, & Other Transportation Costs      | 18,854,868         | 19,801,858        |
| Printing, Advertising & Information Supplies & Services | 15,540,437         | 14,357,000        |
| Skills Development & Training                           | 5,110,710          | 5,667,403         |
| Audit Fees                                              | 464,000            | 464,000           |
| Specialized Materials & Supplies                        | 3,203,000          | 3,447,300         |
| Office & General Supplies & Services                    | 18,574,257         | 13,848,480        |
| Insurance                                               | 2,134,870          | 1,930,678         |
| Cyberroam Renewal Licences                              | -                  | 179,500           |
| Bank Charges                                            | 197,628            | 326,204           |
| Administration/Subscriptions                            | 851,907            | 1,106,459         |
| Other Operating Expenses                                | 23,640,581         | 17,657,200        |
| Decentralization of IP                                  | 12,298,126         | 11,559,615        |
|                                                         | <b>107,230,565</b> | <b>96,237,591</b> |

These are various expenditures incurred by the Institute for the purpose of facilitating various functions that are geared towards attainment of the objectives of the Institute. It is the policy of the Institute to write off the trade mark renewal fees outstanding for more than four years at the rate of nine percent (9%) since becoming due.

**12. Cash and Cash Equivalents**

|                                          | <b>2018/19</b>     | <b>2017/18</b>     |
|------------------------------------------|--------------------|--------------------|
|                                          | <b>KSh.</b>        | <b>KSh.</b>        |
| Bank 2(a)                                | 121,145,990        | 131,848,784        |
| Cash on Hand                             | 120,779            | 163,475            |
| Shortterm Deposits                       | -                  | -                  |
| <b>Total Cash &amp; Cash Equivalents</b> | <b>121,266,769</b> | <b>132,012,259</b> |

**13. Detailed Analysis of Cash and Cash Equivalents**

| Banks                   | USD. Rate  | Exchange Rate | Account No. | <b>2018/19</b>     | <b>2017/18</b>     |
|-------------------------|------------|---------------|-------------|--------------------|--------------------|
| <b>Name of the Bank</b> |            |               |             | <b>KSh.</b>        | <b>KSh.</b>        |
| Kenya Commercial Bank   |            |               | 1103867768  | 54,698,192         | 116,335,787        |
| Kenya Commercial Bank   |            |               | 1104172208  | 9,448,557          | 3,276,669          |
| Cash in Hand            |            |               |             | 120,779            | 163,475            |
| National Bank of Kenya  |            |               | 0117311500  | 1,431,892          | 479,912            |
| Mpesa - Safaricom       |            |               | 924850      | 23,806,010         | 3,219,300          |
| Kenya Commercial Bank   |            |               | 1104169363  | 9,866,244          | 1,665,014          |
| Kenya Commercial Bank   | 218,078.00 | 100.40        | 1217036415  | 21,895,095         | 6,872,102          |
| <b>Total</b>            |            |               |             | <b>121,266,769</b> | <b>132,012,259</b> |

**14. Receivables**

|                                      | <b>2018/19</b>     | <b>2017/18</b>     |
|--------------------------------------|--------------------|--------------------|
|                                      | <b>KSh.</b>        | <b>KSh.</b>        |
| <b>Current Receivables</b>           |                    |                    |
| WIPO                                 | 4,891,990          | 34,741,296         |
| ARIPO                                | 12,138,589         | 25,753,686         |
| Staff Advances                       | 2,256,178          | 102,500            |
| Other Receivables (Renewal Fees Due) | 94,542,241         | 115,637,041        |
| <b>Total Receivables</b>             | <b>113,828,998</b> | <b>176,234,523</b> |

These are amounts due from WIPO and ARIPO in respect of the Institute's share of the fees collected on behalf of the Institute.





The staff advances consist of ex gratia advances made by the Institute towards emergency financial needs to staff members during the year under review.

Other receivables consist of renewal fees due from expired trade marks and patents which have not been received. The amount is treated as receivables in the books of accounts.

### 15. Aging Analysis of Accounts Receivables

|                                      | Months<br>3-6    | Months<br>6-9     | Months<br>Over 1 Year | Total              |
|--------------------------------------|------------------|-------------------|-----------------------|--------------------|
| <b>Current Receivables</b>           |                  |                   |                       |                    |
| WIPO                                 | 4,891,990        | -                 | -                     | 4,891,990          |
| ARIPO                                |                  | 12,138,589        | -                     | 12,138,589         |
| Staff Advances                       | -                | 2,256,178         | -                     | 2,256,178          |
| Other Receivables (Renewal Fees Due) | -                | 20,450,000        | 74,092,241            | 94,542,241         |
| <b>Total Receivables</b>             | <b>4,891,990</b> | <b>34,844,767</b> | <b>74,092,241</b>     | <b>113,828,998</b> |

### 16. Inventories

|                                                                          | 2018/19           | 2017/18           |
|--------------------------------------------------------------------------|-------------------|-------------------|
|                                                                          | KSh.              | KSh.              |
| Consumable Stores                                                        | 15,611,152        | 12,751,198        |
| <b>Total Inventories at the Lower of Cost &amp; Net Realizable Value</b> | <b>15,611,152</b> | <b>12,751,198</b> |

The inventories consist of the stock of consumable items held in the Institute's stores during the Quarter.

### Library Books

The Institute has a stock of library books amounting to KSh.4,467,984 used for reference purpose on various disciplines of Intellectual Property. It is the Institute's policy not to recognize depreciation of library books and the same is treated as an asset in the financial statements since they have a useful life of more than four years.

**17. Property, Plant and Equipment**

|                             | <b>Land &amp; Buildings<br/>KSh.</b> | <b>Motor Vehicles<br/>KSh.</b> | <b>Computers<br/>KSh.</b> | <b>Furniture &amp; Equipment<br/>KSh.</b> | <b>Total<br/>KSh.</b> |
|-----------------------------|--------------------------------------|--------------------------------|---------------------------|-------------------------------------------|-----------------------|
| <b>Cost</b>                 |                                      |                                |                           |                                           |                       |
| As at a 1st July, 2017      | 374,126,250                          | 31,309,081                     | 32,486,533                | 32,944,842                                | 470,866,706           |
| Additions for 2017/2018     | 18,774,126                           | 13,825,000                     | 5,406,900                 | 7,577,517                                 | 45,583,543            |
| Transfer/Adjustments        | -                                    | -                              | -                         | -                                         | -                     |
|                             | <b>392,900,376</b>                   | <b>45,134,081</b>              | <b>37,893,433</b>         | <b>40,522,359</b>                         | <b>516,450,249</b>    |
| <b>Depreciation</b>         |                                      |                                |                           |                                           |                       |
| As at a 1st July, 2017      | -                                    | 22,369,953                     | 24,145,523                | 19,328,719                                | 65,844,195            |
| Charge for 2017/2018        | -                                    | 5,691,032                      | 4,124,373                 | 2,649,205                                 | 12,464,610            |
|                             | <b>-</b>                             | <b>28,060,985</b>              | <b>28,269,896</b>         | <b>21,977,924</b>                         | <b>78,308,805</b>     |
| <b>NET BOOK VALUE</b>       |                                      |                                |                           |                                           |                       |
| As at 30th June, 2018       | 392,900,376                          | 17,073,096                     | 9,623,537                 | 18,544,435                                | 438,141,444           |
| As at 30th June, 2017       | 374,126,250                          | 8,939,128                      | 8,341,010                 | 13,616,123                                | 405,022,511           |
| <b>Cost</b>                 |                                      |                                |                           |                                           |                       |
| As at 1st July, 2018        | 392,900,376                          | 45,134,081                     | 37,893,433                | 40,522,359                                | 516,450,249           |
| Additions for 2018/2019     | 16,828,408                           | -                              | -                         | 4,750,986                                 | 21,579,394            |
| Transfer/Adjustment         | 2,359,270                            | -                              | -                         | -                                         | 2,359,270             |
|                             | <b>412,088,054</b>                   | <b>45,134,081</b>              | <b>37,893,433</b>         | <b>45,273,345</b>                         | <b>540,388,913</b>    |
| <b>Depreciation</b>         |                                      |                                |                           |                                           |                       |
| As at a 1st July, 2018      | -                                    | 28,060,985                     | 28,269,896                | 21,977,924                                | 78,308,805            |
| Charge for the Year 2018/19 | -                                    | 4,268,274                      | 2,887,061                 | 2,911,928                                 | 10,067,263            |
|                             | <b>-</b>                             | <b>32,329,259</b>              | <b>31,156,957</b>         | <b>24,889,852</b>                         | <b>88,376,068</b>     |
| <b>NET BOOK VALUE</b>       |                                      |                                |                           |                                           |                       |
| As at 30th June, 2019       | 412,088,054                          | 12,804,822                     | 6,736,476                 | 20,383,493                                | 452,012,845           |
| As at 30th June, 2018       | 392,900,376                          | 17,073,096                     | 9,623,537                 | 18,544,435                                | 438,141,444           |

**NOTE TO DEPRECIATION AND AMORTIZATION ON PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS**

No depreciation is provided on freehold and long leasehold land and buildings. Other property, plant and electronic equipment are depreciated on a reducing balance basis to write the cost or valuation over their estimated useful life. Such depreciation has been calculated on reducing balance method based on the following rates:

|                         |       |
|-------------------------|-------|
| Motor Vehicles          | 25%   |
| Computers               | 30%   |
| Furniture and Equipment | 12.5% |
| Intangible Assets       | 30%   |



**18. Intangible Assets – Software**

| <b>DETAILS</b>               | <b>KSh.</b>       |
|------------------------------|-------------------|
| <b>Cost</b>                  |                   |
| <b>1st July, 2017</b>        | 5,279,670         |
| Additions                    | 1,834,720         |
| Work in Progress             | 26,988,750        |
| Transfers/Adjustments        | -                 |
|                              | <b>34,103,140</b> |
| <b>Amortisation</b>          |                   |
| As at 1st July, 2017         | 3,080,395         |
| Charge for 2017/2018         | 1,210,199         |
|                              | <b>4,290,594</b>  |
| <b>NET BOOK VALUE</b>        |                   |
| <b>As at 30th June, 2018</b> | <b>29,812,546</b> |
| <b>As at 30th June, 2017</b> | <b>2,199,275</b>  |
| <b>Cost</b>                  |                   |
| <b>1st July, 2018</b>        | 7,114,390         |
| Additions for 2018/2019      | -                 |
| Work in Progress             | 47,980,000        |
| Transfers/Adjustments        | -                 |
|                              | <b>55,094,390</b> |
| <b>Amortisation</b>          |                   |
| As at 1st July, 2018         | 4,290,594         |
| Charge for 2018/2019         | 847,139           |
|                              | <b>5,137,733</b>  |
| <b>NET BOOK VALUE</b>        |                   |
| <b>As at 30th June, 2019</b> | <b>49,956,657</b> |
| <b>As at 30th June, 2018</b> | <b>29,812,546</b> |

The intangible assets comprise of the cost incurred for the purpose of the software development. It is the Institute's policy to charge amortization on such software costs at the rate of 30% on reducing balance Method. The Institute also incurred an amount of KSh.47,980,000 on the procurement of Enterprise Resource Programme Software applications which is yet to be completed hence no amortisation was recognized on the same.

The Institute had paid for the software amounting to KSh.20,991,250 during the Financial Year but the Adjustment had already been captured as software and therefore the entity only affected the cashflow.

**19. Trade and Other Payables**

|                                       | 2018/19          | 2017/18           |
|---------------------------------------|------------------|-------------------|
|                                       | KSh.             | KSh.              |
| Audit Fees                            | 464,000          | 464,000           |
| Contractors                           | -                | 8,519,509         |
| Retention                             | 2,446,026        | 1,412,658         |
| <b>Total Trade and Other Payables</b> | <b>2,910,026</b> | <b>10,396,167</b> |

This consists of the provision made in respect to the amount owed to the Kenya National Audit Office in respect of audit fees for the period ended 30<sup>th</sup> June, 2019 and the retention money owed to the contractors.

**20. Reserves**

|                       | 2018/19            | 2017/18            |
|-----------------------|--------------------|--------------------|
|                       | KSh.               | KSh.               |
| Capital Reserve       | 611,636,760        | 611,636,760        |
| Accumulated Surplus   | 142,597,619        | 171,387,027        |
| <b>Total Reserves</b> | <b>754,234,379</b> | <b>783,023,787</b> |

Reserves comprise of balances in form of accumulated surplus from operating activities.

**21. Accumulated Surplus**

|                                          | 2018/19            | 2017/18            |
|------------------------------------------|--------------------|--------------------|
|                                          | KSh.               | KSh.               |
| Balances B/f                             | 171,387,027        | 142,573,412        |
| Less: Transfers to Operation/Adjustments | (73,939,024)       | -                  |
| Add: Surplus for the Year                | 45,148,616         | 28,813,615         |
| <b>Accumulated Surplus</b>               | <b>142,596,619</b> | <b>171,387,027</b> |

This represents the excess of the revenue over the expenditure incurred to realize that income during the period under review.







## 22. Financial Risk Management

The entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

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

### 22. (a) Credit Risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

During the year under review the Institute was exposed to credit risk labelled below at the carrying amounts;

| Details                                    | Total Amount<br>KSh. | Fully<br>Performing<br>KSh. | Past Due<br>KSh.  | Impaired<br>KSh. |
|--------------------------------------------|----------------------|-----------------------------|-------------------|------------------|
| <b>As at 30th June, 2019</b>               |                      |                             |                   |                  |
| Receivables from exchange transactions     | 101,690,409          | 27,598,168                  | 74,092,241        | -                |
| Receivables from non exchange transactions | 12,138,589           | 12,138,589                  |                   | -                |
| Bank balances                              | 121,266,769          |                             |                   | -                |
| <b>Total</b>                               | <b>235,095,767</b>   | <b>39,736,757</b>           | <b>74,092,241</b> | <b>-</b>         |

**22 (b) Liquidity Risk**

| Details                       | Less than 1<br>Month<br>KSh. | Between 1-3<br>Months<br>KSh. | Over 5 Months<br>KSh. | Total<br>KSh.    |
|-------------------------------|------------------------------|-------------------------------|-----------------------|------------------|
| <b>As at 30th June, 2018</b>  |                              |                               |                       |                  |
| Trade Payables                | -                            | 464,000                       | 2,446,026             | 2,910,026        |
| Current Portion of Borrowing  | -                            | -                             | -                     | -                |
| Provisions                    | -                            | -                             | -                     | -                |
| Deferred Income               | -                            | -                             | -                     | -                |
| Employee Benefits Obligations | -                            | -                             | -                     | -                |
| <b>Total</b>                  | -                            | <b>464,000</b>                | <b>2,446,026</b>      | <b>2,910,026</b> |

**23. Market Risk**

23 (a) Foreign currency risk – refers to transactional currency exposure as a result of the changes in the prevailing exchange rates.

The carrying amount of the Institute's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows;

**23 (a) Foreign Currency Risk**

| Details                                        | KSh.              | Other<br>Currencies | Total             |
|------------------------------------------------|-------------------|---------------------|-------------------|
|                                                | KSh.              | KSh.                | KSh.              |
| <b>As at 30th June, 2019</b>                   |                   |                     |                   |
| Financial Assets (Investments, Cash, Deposits) | 21,895,095        | 76,110,730          | 98,005,825        |
| Liabilities                                    | -                 | -                   | -                 |
| Trade and Other Payables                       | -                 | -                   | -                 |
| Borrowings                                     | -                 | -                   | -                 |
| <b>Net Foreign Currency Asset/Liability</b>    | <b>21,895,095</b> | <b>76,110,730</b>   | <b>98,005,825</b> |





**23 (b) Capital Risk Management**

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

| Details                                   | 2018-2019          | 2017-2018          |
|-------------------------------------------|--------------------|--------------------|
|                                           | KSh.               | KSh.               |
| Revaluation Reserve                       | -                  | -                  |
| Retained Earnings                         | 142,597,619        | 171,387,027        |
| Capital Reserve                           | 611,636,760        | 611,636,760        |
| <b>Total Funds</b>                        | <b>754,234,379</b> | <b>783,023,787</b> |
| Total Borrowing/Debt                      | (2,910,026)        | -                  |
| Less: Cash and Bank Balances              | 121,266,769        | 132,012,259        |
| Net Debt/Excess Cash and Cash Equivalents | 118,356,743        | 132,012,259        |
| Gearing                                   | 2%                 | 0%                 |

**24. Related Party Transactions**

Related party transactions or expenditures incurred by the Institute comprise of the following:

| Details                               | 2018-2019         | 2017-2018         |
|---------------------------------------|-------------------|-------------------|
|                                       | KSh.              | KSh.              |
| Directors Emoluments                  | 936,667           | 10,978,027        |
| Compensation to the Managing Director | 6,900,000         | 6,300,000         |
| Compensation to Key Management        | 21,260,400        | 16,000,800        |
| <b>Total</b>                          | <b>29,097,067</b> | <b>33,278,827</b> |

25. Status of Project Completion as at 30<sup>th</sup> June, 2019

|   | PROJECT                                           | APPROVED BUDGET    | TOTAL EXPENDED TO DATE      | COMPLETION % TO DATE        | SOURCES |
|---|---------------------------------------------------|--------------------|-----------------------------|-----------------------------|---------|
|   |                                                   |                    |                             |                             |         |
| 1 | Refurbishment of KIPi's New Premises at Lavington | 63,000,000         | 40,502,050                  | 64%                         | G.O.K.  |
| 2 | Decentralization of IP                            | 30,000,000         | 27,704,475                  | 92%                         | G.O.K.  |
| 3 | Establishment of a Research Unit                  | 10,000,000         | Project Concept Development | Project Concept Development | G.O.K.  |
| 4 | IP Promotion for Productivity and Competitiveness | 7,000,000          | Project Concept Development | Project Concept Development | G.O.K.  |
| 5 | Digitization of IP Systems                        | 65,000,000         | 51,457,400                  | 79%                         | G.O.K.  |
|   |                                                   | <b>175,000,000</b> | <b>119,663,925</b>          |                             |         |







