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# Micro and Small Enterprises **Authority**

*Entrepreneurship Transforming Kenya*

## **AUDITED ANNUAL REPORT AND FINANCIAL STATEMENTS**

For The Financial Year Ended June 30, 2014

V. 14

REPUBLIC OF KENYA



# **KENYA NATIONAL AUDIT OFFICE**

**REPORT**

**OF**

**THE**

**AUDITOR GENERAL**

**ON**

**THE FINANCIAL STATEMENT OF  
MICRO AND SMALL ENTERPRISES  
AUTHORITY**

**FOR THE YEAR ENDED  
30 JUNE 2014**



# MICRO AND SMALL ENTERPRISES AUTHORITY

## Vision

Globally Competitive Micro and Small Enterprises

## Mission

To Promote the Development of  
Competitive and Sustainable Micro  
and Small Enterprises

## Core Values

- Client Focus
- Creativity and Innovation
- Accountability and Integrity
- Professionalism
- Teamwork and Inclusivity



**MICRO AND SMALL ENTERPRISES  
AUTHORITY**

**AUDITED ANNUAL REPORT AND FINANCIAL  
STATEMENTS**

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

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## I. THE BOARD OF DIRECTORS

### Name of the Director

**1. Paul B.M. Ngugi, MBS**  
Board Chairman



### Director's Details

Born in 13<sup>th</sup> July 1952, Mr. Paul Ngugi holds a Masters of Social Science (M.Soc.SC) in Development Administration from the University of Birmingham (UK), a Bachelor of Arts from the University of Nairobi and a Diploma of Professional Development in Management with Specialization in Budgeting and Financial Management from the University of Connecticut (USA). HE has served the Government in Various capacities rising through the ranks to the Director of Budget , National Treasury. He has also served at various boards of State Corporations including, Housing Finance, Kenya Meat Commission, National Oil Corporation, Kenya Dairy Board and alternate Director in Kenya Roads Board.

**2. Benjamin F. Nkungi**  
Director



Born in 1955 Mr. Benjamin Nkungi holds a Bachelor of Arts degree in Sociology and Economics from University of Nairobi, 1978 – 1981 specializing in Economics and Social Research, Masters of Science – Msc. Economics University of Wales-UK-1988-1989 and ACCA Diploma in Financial Management. He is the Chief Executive Officer for Association of Microfinance Institutions Kenya and has over 20 years working experience in various sectors. Education, training and work experience is in Enterprise Development specializing in Micro financing. He is a Member of the Kenya Private Sector Alliance (KEPSA) Board, Canyon Rural Credit, ASMEP, Board of the Micro Enterprises Support Programme Trust and Governing Council of Methodist Church.

**3. Simon S. Nasieku**  
Director



Born 13<sup>th</sup> April 1971, Mr Simon Nasieku has spent the last 12 years sensitizing, lobbying and advocating for the rights of Hawkers, Street Vendors, Market traders, Service providers and other Informal traders in Nakuru, nationally and internationally. He is a career human rights defender and the founder chairperson of Nakuru Human Rights Network. He is currently the trustee of Kenya National alliance of Street Vendors and informal traders (KENASVIT), Where he served for eight years as national chairman.

## Name of the Director

## Director's Details

### 4. John Kihiu Director



Born 12<sup>th</sup> December, 1964, Mr. Kihiu holds certificate in Entrepreneurship Training skills from Peoples Republic of China. He is currently the Chairman of the Kenya National Hawkers Association, (KENAHA), founder Member and Chairman of Association of micro and small enterprises Associations of Kenya and currently the Director of MSMEs at the Kenya National Chamber of Commerce. He represents the small traders in the Authority, Secretary General CISO (EA) and Chairman CISO (Kenya Chapter).

### 5. Joy Limo Director



Born 5th January 1959, Joy Limo holds Masters of science in counselling and life coaching from Kaplan University Hagarstown Maryland. She holds a Bachelor of Education, Fine Art and English from Kenyatta University, She has lectured at Moi Teachers College, Eldoret, Shanzu Teachers College and has also worked as a paralegal in Baltimore,USA. She is a member of Association for Physically Disabled in Kenya, Women Embracing Abilities Network (WEAN), Co-Founder, Baltimore, MD, Queen's Court Academy, Mentorship Programs and Courses for Youth, Founder, Eldoret, Kenya, Widows and Orphans Alive Community (WOAC), Vice President, Eldoret, Ride the Reading Train, Reading Clubs for children, Founder

### 6. Keli Kiilu, MBS , OGW Director



Born in April, 1955 Mr. Keli Kiilu is a member of the East African Business Council where he has served on various capacities including being a Vice Chairman . He coordinates the parliamentary and the Presidential round table in Kenya. A staunch supporter of the MSE Sector in the EAC Region as demonstrated by his support for the MSE Exhibitions over the last 20 years. He has also served in the Board of KAM and KEPSA among others. Finally he is the deputy partner of East Africa CISO.

## Name of the Director

### 7. Nahum Okwiya Board Chairman



### 8. Richard N. Muteti Director



### 9. Joanne Mwangi Director



## Director's Details

Born in 1975, Mr Nahum Okwiya holds a Bachelor's degree in International Business Administration from the United States International University (USIU) – Africa and is also a Certified Public Accountant (CPA) – Kenya. CEO of Finmac, a business development firm that provides practical business solutions to small businesses. ac supports small business grows and create wealth, while at the same time creating jobs.

He is also the founder and Trustee of Africa Youth Trust (AYT), a development and advocacy organization. Prior to establishing AYT, he worked in different private and public sector organizations. He has also served as a Governor and the Chairman of the Kenya Private Sector Alliance (KEPSA) - Youth affairs Sector Board as well as the Chairman of Private Sector Youth Federation (PSYF) in Kenya.

Born in 1969, Mr Richard Muteti is the Chief Executive officer of the Kenya National Federation of Jua Kali Associations (KNFJA), an umbrella association of primary small businesses associations across the country since 2006. Also founder and Director of the Small and Medium Enterprise Support, East Africa (SMES-EA) an institution that works in partnership with individual and small business membership associations in Kenya and the East African region to facilitate their access to critical inputs needed for their development. In 2008, he was Appointed the Regional Project Manager for the East Africa Community (EAC) Jua Kali/Nguvu Kazi Exhibitions, He sits as a member of the Presidential Private Sector Working Forum in Kenya. Mr. Muteti received a Head of State Commendation Awarded by His Excellency the President of the republic of Kenya for distinguished service to the society on 12<sup>th</sup> December 2009. Mr. Muteti is currently the chairman of the COMESA Business Council SME's workgroup.

Born in 29<sup>th</sup> May 1966 Joanne Mwangi has over 20 years experience in marketing and agency related work. BA graduate with an MBA in Marketing. 1<sup>st</sup> woman to be awarded an MSK Warrior Award and has served in various capacities in both private and public sector. Founder and current chair of Federation of Women Entrepreneur Associations; and has made a significant contribution, financial impact and a considerable difference through assistance given to the work of voluntary organizations, communities, causes or society.

## Name of the Director

**10. Patrick Z.K. Mwangi,**  
Ag Chief Executive Officer



## Director's Details

Born 29<sup>th</sup> February 1964, Mr Patrick Mwangi holds a Masters Degree from the University of Manchester, UK in the field of Governance of Public Policy and Management. He has vast exposure and training in Project, finance and human Management within the public sector, agri-business and environmental conservation. His innovative and decision making skills have transformed opportunities, integrating analytical Change and professionalism in realizing successful implementation of policies in various sectors. He is a career administrator having worked in Many parts of the Country and diverse Ministries serving both the Executive and polity offices.

## 2. MANAGEMENT TEAM

### Management Names

#### 1. Patrick Z.K. Mwangi, Ag Chief Executive Officer



#### 2. Aloys O. Ojiambo Deputy Director Administration & Business Development Services



#### 3. Susan Chelagat Head, Legal Services



### Management Details

Born 29<sup>th</sup> February 1964, Mr Patrick Mwangi holds a Masters Degree from the University of Manchester, UK in the field of Governance of Public Policy and Management. He has vast exposure and training in Project, finance and human Management within the public sector, agri-business and environmental conservation. His innovative and decision making skills have transformed opportunities, integrating analytical Change and professionalism in realizing successful implementation of policies in various sectors. He is a career Administrator having worked in many parts of the country diverse Ministries both the Executive and polity levels.

Born on 7<sup>th</sup> December 1955, Mr Aloys Ojiambo holds a Diploma in Technical Education from Kenya Technical Teachers College and a Motor Vehicle Technician Part III Certificate from Kenya Polytechnic. He was elected Member of the Institute of the Motor Industry of London in 1985. He has vast experience in the public sector where he has worked for the last 33 years, holding several senior positions in the cadres of Technical Teacher, Inspector of Schools for Technical Education, Provincial Technical Training Officer, Applied Technology and Micro and Small Enterprise Development. Due to his commitment to duty, he was appointed Project Coordinator for the last year of the World Bank funded Micro and Small Enterprise Training and Technology Project which he successfully concluded in 2002. He has attended numerous short courses in Public Sector Policy and Management.

Born in 1979, Ms. Susan Chelagat is an Advocate of Kenya and holds a Master of Arts Degree in International Conflict Management from the University of Nairobi, Postgraduate Diploma in Law from Kenya School of Law and Bachelor of Laws (LLB) from Moi University. She has worked in the Public Service as a State Counsel for a period of 6 years.

### 3. KEY AUTHORITY INFORMATION AND MANAGEMENT

#### (a) Background information

The Micro and Small Enterprise Authority (MSEA) is a new state corporation established under the Micro and Small Enterprise Act No. 55 of 2012. The Authority is the legal authority established by law to support development and regulation of micro and small enterprises. The Authority's mandate as indicated by the Micro and Small Enterprise Act No. 55 of 2012 is to Regulate, Promote and Develop the Micro and Small Enterprise Sector.

His Excellency the President, through gazette notice 2902 of 1<sup>st</sup> March 2013 appointed the Chairman of the Board of the MSE Authority while the Minister for Labour, through Kenya Gazette Notice No. 2954 of 8<sup>th</sup> March 2013, appointed members of the Board and an Acting Chief Executive Officer (Ag. CEO). The Authority took over functions previously undertaken by the Department of Micro and Small Enterprises Development (DMSED) under the Ministry of Labour. Consequently, officers previously serving under the Department were deployed to the new Authority to provide initial secretariat service.

The Authority is categorized as a Service State owned agency in class 3B. The goal of the Authority is to facilitate development of a vibrant Micro and Small Enterprise Sector that is capable of sustainable contribution to economic growth and employment creation in the country.

At cabinet level, the Authority is represented by the Cabinet Secretary for Industrialization and Enterprise Development, Mr. Adan A. Mohamed, who is responsible for the general policy and strategic direction of the Authority.

#### (b) Principal Activities of the authority

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

#### (c) Key Management

The board of directors and management team who served the authority during the year was as detailed in pages 1 to 5.

#### (d) Fiduciary Management

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2014 and who had direct fiduciary responsibility were as detailed in page 5.

#### (e) Fiduciary Oversight Arrangements

The board of directors has formed an audit and risk committee consisting of 8 members of whose main responsibilities are:

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

**(f) Authority's Headquarters**

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

**(g) Authority's Contacts**

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

**(h) Authority's Bankers**

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

**(i) Independent Auditors**

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

**(j) Principal Legal Adviser**

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

## 4. CHAIRMAN'S STATEMENT

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

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

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

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

During the last one year, the Board concentrated on putting the necessary structures and mechanisms required for improved service delivery. In the next phase, more efforts will be put in place to foster strong partnership, working with National and County Governments, coordinated MSE sector, Competitive products from MSEs sector, decent working environment for MSE sector, expanded markets for MSE products, increased jobs/employment in the MSE sector and enhance entrepreneurship culture with more youth becoming entrepreneurs rather than seeking white colour jobs. MSEA will refocus the energy towards activities and programmes geared towards achievement of Vision 2030 .

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

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

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



.....  
**Paul B.M. Ngugi, MBS**  
Chairman

## 5. REPORT OF THE CHIEF EXECUTIVE OFFICER

The Micro and Small Enterprises Authority (MSEA) is a State Corporation established under the Micro and Small Enterprise Act No. 55 of 2012 and currently domiciled in the Ministry of Industrialization and Enterprise Development. The Act provide for promotion, development, regulation and establishment of the Micro and Small Enterprises Authority.

The object and purpose of the Act is to provide for the legal and institutional framework for the promotion, development and regulation of Micro and Small Enterprises by: providing an enabling business environment; facilitating access to business development services by Micro and Small Enterprises; facilitating formation and upgrading of informal Micro and Small Enterprises; Promoting an entrepreneurship Culture and promote representative associations.

Some of the major functions of the Authority (MSEA) as provided for by the Micro and Small Enterprises Act include;

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

In order to meet its objective, the Board invested in development of its five (5) year Strategic Plan; and operational and procedure manuals including; MSEA organizational structure, human resource procedures and policy documents, Career guidelines, financial management and procurement procedure manuals.

The Authority while facilitating MSE sector access to market, organized and hosted a regional exhibition, which brought together five (5) EAC Partner States “ the 14<sup>th</sup> EAC Jua Kali/Nguvu Kazi Exhibition.” Further, MSEA facilitated MSEs to access local and county exhibitions. In order to improve skills of MSEs to enable them grow their businesses, MSEA organized and trained MSEs on entrepreneurship.

Towards operationalization of phase one of Kariobangi MSE Development Centre of Excellence, which is a flagship project under Vision 2030, the Authority upgraded electricity supply at the centre.

To improve the work environment of staff and enhance service delivery, the Authority acquired Vehicles, office furniture and equipment, and additional office space for headquarter and field services.

On behalf of the Board and Management, I would like to take this opportunity to recognize and appreciate the direction and contribution of the Cabinet Secretary, Mr. Aden Mohamed and the Principal Secretary, Dr. Wilson Songa who have buoyed the efforts of the Board in meeting the expectations of the Public. I also

appreciate the National Treasury for the continued support in providing the resources to get us where we are today. For all our stakeholders and general public who have continued to believe in us. Thank you.

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



.....  
**PATRICK Z. K. MWANGI**  
**AG. CHIEF EXECUTIVE OFFICER**

## 6. CORPORATE GOVERNANCE STATEMENT

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

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

### **The Role of the Board**

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

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

### **Composition of the Board**

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

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

### **Board Meetings**

The Board schedule of meetings is prepared annually in advance. The Board holds its regular meetings at least once every three (3) months and special meetings may be called when necessary. During the year under review, the Board held six (6) regular and three (3) special meetings.

### **Committees of the Board**

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

#### **a) Audit and Risk management Committee**

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

**b) Finance, Human Resource and Administration Committee**

The Committee reviews and provides recommendations on issues relating to all human resource policies and procedures, Resource mobilization, work planning and budgeting, procurement oversight, performance contracting and ensuring compliance with legal and statutory requirements. The Committee held five (5) regular meetings and in the year under review.

**c) Strategy and Business Development Services Committee**

The committee deals with Policy formulation and review, Strategy Planning, Research and Product Development, Protection of Intellectual property, Marketing and Access to markets, Technology development, acquisition and transfer, Training and capacity building for MSEs and Monitoring and Evaluation systems. The Committee held five (5) regular meetings and in the year under review.

**d) Development and Infrastructure**

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

**Performance Contract**

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

**Training and Development**

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

**Conflict of Interest**

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

**Directors Emoluments**

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

## 7. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

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

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

The Authority's major source of funding has been through the Exchequer from the National Treasury in the form of Recurrent and Capital grants. The Authority has developed and is finalizing the launch of its strategic Plan 2013- 2017 which provides the policy guidelines for the Authority in the planned period. The Authority has also developed most of its operational Manuals, in Human resource management and Development, Finance and Procurement and regulations to guide Micro and Small Enterprise (MSE) infrastructure development of its sites. (Work sites)

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

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

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

## 8. REPORT OF THE DIRECTORS

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

### **Principal activities**

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

### **Results**

The results of the Authority for the year ended June 30, 2014 are set out on pages 18 to 22.

### **Directors**

The members of the Board of Directors who served during the year are shown on pages 3 to 6.

### **Auditors**

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

## 9. STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

The Directors accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of authority's transactions during the financial year ended June 30, 2014, and of the Authority's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

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

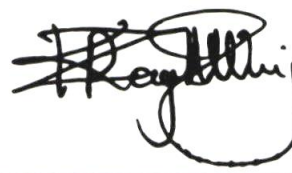
### Approval of the financial statements

This is the Authority's final audited copy of the financial statements as earlier approved by the Board on 30<sup>th</sup> September 2015 and signed on its behalf by:



Paul M Ngugi  
Chairman

Date..... 29/09/2014



Patrick Z K Mwangi  
Ag Chief Executive Officer

Date..... 29/09/2014

## 10. FINANCIAL STATEMENT

### MICRO AND SMALL ENTERPRISES AUTHORITY

#### STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30<sup>th</sup> June 2014

Note		2014 Kshs
<b>Revenue from non-exchange transactions</b>		
Government grants	3	212,328,461
Grant for donor funded project	4	4,494,000
<b>Revenue from exchange transactions</b>		
Other income	5	1,247,060
<b>Total revenue</b>		<b>218,069,521</b>
<b>Expenses</b>		
Staff salaries	6	1,216,741
General Expenses	7	118,992,916
Board Expenses	8	15,711,371
Audit fee		120,000
Depreciation	9	3,235,038
<b>Total expenses</b>		<b>139,276,066</b>
<b>Surplus before tax</b>		<b>78,793,455</b>
Taxation		-
<b>Surplus for the period</b>		<b>78,793,455</b>

The notes set out on pages 26 to 38 from an integral part of the Financial Statements

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NAIROBI



Government of Kenya

## **OFFICE OF THE AUDITOR-GENERAL**

### **REPORT OF THE AUDITOR-GENERAL ON MICRO AND SMALL ENTERPRISE AUTHORITY FOR THE YEAR ENDED 30 JUNE 2014**

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Micro and Small Enterprise Authority set out on pages 20 to 38, which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, together with a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of audit.

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

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

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

#### **Auditor-General's Responsibility**

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

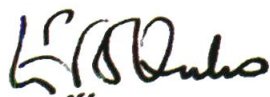
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or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

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

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

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects the financial position of the Authority as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with Micro and Small Enterprise Act, 2012 of the Laws of Kenya.



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

**Nairobi**

**23 April 2015**

**MICRO AND SMALL ENTERPRISES AUTHORITY**

**STATEMENT OF FINANCIAL POSITION**

As at 30<sup>th</sup> June 2014

Note		2014 Kshs
<b>Assets</b>		
<b>Current assets</b>		
	10	37,455,245
	11	53,145,882
		<b>90,601,127</b>
<b>Non-current assets</b>		
	12	11,136,501
		<b>101,737,628</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
	13	8,452,635
		120,000
		<b>8,572,635</b>
<b>Net Assets</b>		
<b>Reserves</b>		
		78,793,455
	3	14,371,539
		<b>101,737,629</b>

The Financial Statements set out on pages 26 to 38 were signed on behalf of the Board of Directors by:

Ag.C.E.O



Sign.....

29/09/2014

Date.....

Chairman of the Board



Sign.....

29/09/2014

Date.....

**MICRO AND SMALL ENTERPRISES AUTHORITY**

**STATEMENT OF CHANGES IN NET ASSETS**

For the year ended 30<sup>th</sup> June 2014

Attributable to owners of the controlling authority

	Capital Reserve	Accumulated surplus Kshs	Total Kshs
<b>Balance as at 30 JUNE 2013</b>	-	-	-
Surplus for the period		78,793,455	78,793,455
Capital Grant	14,371,539		14,371,539
<b>Balance as at 30 JUNE 2014</b>	<b>14,371,539</b>	<b>78,793,455</b>	<b>93,164,994</b>

**MICRO AND SMALL ENTERPRISES AUTHORITY**

**STATEMENT OF CASHFLOWS**

For the year ended 30<sup>th</sup> June 2014

Note	2014 Kshs
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Surplus from operating activities	78,793,455
<b>Adjustments for:</b>	
Depreciation	3,235,038
Provision	120,000
	<b>82,148,493</b>
Adjustments for working capital changes	
Increase in Payables	8,452,635
Increase in Receivables	(53,145,882)
<b>Net cash generated from operating activities</b>	<b>(44,693,247)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of fixed assets	(14,371,539)
<b>Net cash flow from investing activities</b>	<b>(14,371,539)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Grants	14,371,539
<b>Net cash used in Financing activities</b>	<b>14,371,539</b>
Increase/decrease in cash and cash equivalents	<b>37,455,246</b>
Cash and cash equivalents at start of the year	-
Cash and cash Equivalent at the end of the year	<b>37,455,246</b>

**MICRO AND SMALL ENTERPRISES AUTHORITY**

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

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2013-2014	2013-2014	2013-2014	2013-2014	2013-2014
	Kshs	Kshs	Kshs	Kshs	Kshs
<b>Revenue</b>					
GOK grants	176,700,000	50,000,000	212,130,961	212,130,961	-
Fees, levies & charges	1,000,000	-	1,000,000	1,247,060	(247,060)
Devt partners & Donors	4,494,000	-	4,494,000	4,494,000	-
<b>Total Income</b>	<b>232,194,000</b>	<b>-</b>	<b>217,624,961</b>	<b>217,872,021</b>	<b>(247,060)</b>
<b>Expenses</b>					
Personnel Emoluments	5,000,000	-	5,000,000	1,216,741	3,783,259
Travel cost	9,100,000	-	9,100,000	6,305,478	2,794,522
Printing & Advertising services	9,202,000	-	9,202,000	9,123,152	78,848
Utilities Electricity and water charges	3,735,881	-	3,735,881	1,800,378	1,935,503
Communication & Supplies	3,480,000	-	3,480,000	3,222,651	257,349
Rent	14,300,000	-	14,300,000	13,665,902	634,098
Training Expenses	12,094,000	-	12,094,000	11,857,914	236,086
Hospitality Supplies and Services	23,818,000	-	23,818,000	22,028,282	1,789,718
Research and Data	3,835,000	-	3,835,000	2,995,038	839,962
Board Expenses	22,000,000	-	22,000,000	15,078,784	6,921,216
Office General Services	9,500,000	-	9,500,000	11,536,930	-1,839,430
Routine Maintenance	4,100,000	-	4,100,000	3,941,341	158,659
Jua kali Nguvu Kazi Exhibition	25,000,000	-	25,000,000	24,876,124	123,876
MSE Excellence Centre	3,500,000	-	3,500,000	371,187	3,128,813
MSE Worksites and CIDC's	6,500,000	-	6,500,000	4,754,850	1,745,150
Refurbishment of Non Residential Building	4,165,000	-	4,165,000	2,640,047	1,524,953
Purchase of IT equipment	4,700,000	-	4,700,000	3,013,960	1,686,040
Purchase of other Office Equipment	5,500,000	-	5,500,000	4,872,080	627,920
Purchase of motor Vehicle	6,500,000	-	6,500,000	6,485,499	14,501
<b>Total expenditure</b>	<b>176,029,881</b>	<b>-</b>	<b>176,029,881</b>	<b>149,786,338</b>	<b>26,441,043</b>

## MICRO AND SMALL ENTERPRISES AUTHORITY

### Notes on material performance differences in the Statement of comparison of budget and actual amounts.

- a) Personnel Emoluments- Kshs 3,783,259  
This difference is due to the fact that the authority had factored in top up allowances for the authority staff which the state corporation advisory committee (SCAC) did not approve within the budgeted period.
- b) Travel costs - Kshs. 2,794,522  
The expected bench marking exercise by staff and the board was not carried out. The national Treasury also issued guidelines restricting foreign travel.
- c) Utilities Electricity and water charges – Ksh. 1,935,503 budgeted rent expenses for field officers which were factored were not paid since the headquarters paid for the same as officers were occupying their premises.
- d) Rent Kshs – 634,098  
The authority did not utilise additional parking bays that had been factored in the budget.
- e) Board Expenses Kshs – 6,921,216  
The authority had factored in benchmarking trip for board members but the National treasury issued guidelines restricting foreign travel.
- f) Refurbishment, purchase of IT equipment, and machinery Equipment Ksh – 1,524,953, 1,686,040 respectively.  
The National Treasury issued a guideline stating that State Corporations earmarked for Merger should not engage in capital acquisition.
- g) MSE Worksites and CIDC's Kshs 3,128,813  
The Authority had projected Expenditure under CIDC's that were to be handed over to the Authority. However, by 30<sup>th</sup> June 2014, CIDC's handing over report were not complete and therefore the under utilisation.

## MICRO AND SMALL ENTERPRISES AUTHORITY

### Notes to the financial statements

#### 1. Statement of compliance and basis of preparation

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

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

#### 2. Summary of significant accounting policies

##### 1). Revenue recognition

- i) Revenue from non-exchange transactions

##### Fees, taxes and fines

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

### **Transfers from other government entities**

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

### **i) Revenue from exchange transactions**

#### ***Rendering of services***

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

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

#### ***Sale of goods***

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

#### ***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.

## **2). Budget information**

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the authority. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or authority differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

## **3). Taxes**

### ***Current income tax***

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Authority operates and generates taxable income.

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

### ***Sales tax***

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

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

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

#### 4). Property, plant and equipment

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

##### Depreciation

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

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

#### 5). Leases

Finance leases are leases that transfer substantially the entire risks and benefits incidental to ownership of the leased item to the Authority. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Authority also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Authority will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Authority. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

#### 6). Intangible assets

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

Amortization is calculated on straight line basis over 3 years.

#### 7). Research and development costs

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

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset

- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

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

## 8). Financial instruments

### *Financial assets*

#### *Initial recognition and measurement*

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Authority determines the classification of its financial assets at initial recognition.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

#### *Impairment of financial assets*

The Authority assesses at each reporting date whether there is objective evidence that a financial asset or a authority of financial assets is impaired. A financial asset or a authority of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the authority of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a authority of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

## 9). Financial liabilities

### *Initial recognition and measurement*

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

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

#### *Loans and borrowing*

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

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs

that are an integral part of the effective interest rate.

### **10).Inventories**

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

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

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

### **11).Provisions**

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

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

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

#### ***Contingent liabilities***

The Authority does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

#### ***Contingent assets***

The Authority does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority 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.

### **12).Nature and purpose of reserves**

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

### **13).Changes in accounting policies and estimates**

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

#### **14). Foreign currency transactions**

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

#### **15). Borrowing costs**

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

#### **16). Related parties**

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

#### **17). Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

#### **18). Comparative figures**

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

#### **19).s) Significant judgments and sources of estimation uncertainty**

The preparation of the Authority's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

#### **20). Critical accounting judgments in applying the entity's accounting policies**

##### *Impairment losses on trade and other receivables*

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

##### **Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Authority based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and

assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Authority. Such changes are reflected in the assumptions when they occur.

### **Key sources of estimation uncertainty**

#### *Impairment of assets*

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

#### *Plant and equipment*

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

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

#### *Fair value estimation – financial instruments*

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

### **21).Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2014.

### **Government grants**

	<b>2014 Kshs</b>
GOK grants – Recurrent	212,328,461
GOK grants –Development	14,371,531
<b>Total</b>	<b>226,700,00</b>

### **Grant for donor funded project**

	<b>2014 Kshs</b>
Grants from international labour organisation	4,494,000
<b>Total</b>	<b>4,494,000</b>

The authority received a grant from the ILO to co-finance the training of micro and small entrepreneurs in Kenya.

## Other incomes

	2014 Kshs
Nairobi ASK fees	152,500
Kariobangi Centre of Excellence	316,310
Nguvu Kazi Fees	778,250
<b>Total</b>	<b>1,247,060</b>

## Staff Salaries

	2014 Kshs
CEO's Salary	1,216,741
<b>Total</b>	<b>1,216,741</b>

All other staff working for the authority were seconded by the Ministry of Industrialisation and hence their salaries were paid by the ministry.

## General expenses:

	2014 Kshs
Domestic travel	5,791,844
Foreign Travel	513,631
Printing supplies and advertisement	9,123,152
Utilities	1,800,378
Communication Supply Services	3,222,651
Rent	13,665,902
Training Expenses	7,553,415
Training Expenses (ILO)	4,304,500
Hospitality Supplies & Services	22,028,282
General Office Expenses	11,536,930
Routine Maintenance	3,941,341
Jua Kali Nguvu Kazi	24,516,870
MSE Centre of excellence	371,187
MSe Worksites And CIDCs	4,754,850
Minor Repair	2,640,046
Bank Charges	112,900
Telephone, Fax	120,000
Research And Data	2,995,038
<b>Total</b>	<b>118,992,916</b>

## Board Expenses

	2014 Kshs
Sitting allowances	9,202,727
Mileage	40,581
PAYE	3,019,200
Training expenses	2,243,580
Travel Expenses	763,685
Medical Insurance	441,598
<b>Total</b>	<b>15,711,371</b>

## Depreciation and Amortisation

	2014 Kshs
Property Plant & Equipment	3,235,038
<b>Total</b>	<b>3,235,038</b>

## Cash and Cash Equivalents

	2014 Kshs
Bank balances	37,455,245
<b>Total</b>	<b>37,455,245</b>

## Receivables from Non Exchange Transactions

	2014 Kshs
Outstanding Imprest	3,145,882
GOK grant receivable	50,000,000
<b>Total</b>	<b>53,145,882</b>

A recurrent grant of Ksh. 50,000,000 was allocated to the authority in the supplementary budget for FY 2013/14. This was received in the month of July 2014 after the close of the financial year.

## Property, plant and equipment

	Office Equipment	Computers	Motor Vehicles	Totals
Cost	Kshs	Kshs	KShs	KShs
<b>At30 June2013</b>	-	-	-	-
Additions	4,872,080	3,013,960	6,485,499	14,371,539
Disposals	-	-	-	-
<b>At30 June2014</b>	<b>4,872,080</b>	<b>3,013,960</b>	<b>6,485,499</b>	<b>14,371,539</b>
<b>Depreciation and impairment</b>				
<b>At30 June2013</b>	-	-	-	-

Depreciation	609,010	1,004,653	1,621,375	3,235,038
Disposals	-	-	-	-
Impairment	-	-	-	-
<b>At 30 June 2014</b>	<b>609,010</b>	<b>1,004,653</b>	<b>1,621,375</b>	<b>3,235,038</b>
<b>Net book values</b>				
<b>At 30 June 2014</b>	<b>4,263,070</b>	<b>2,009,307</b>	<b>4,864,124</b>	<b>11,136,501</b>

**NOTE:** The above figure of property and equipment of Kshs. 11,136,501 excludes an amount of un determined value of assets that were vested to the Authority by the Parent Ministry after the Authority was delinked from the Ministry. Arrangements are in place to conduct an inventory of the assets vested by the Ministry so that valuation can be done on these assets for them to be recognized in the financial statements.

### Trade & Other Payables from Exchange Transactions

	<b>2014 Kshs</b>
Trade payables	8,572,635
<b>Total</b>	<b>8,572,635</b>

### Related party transactions

The remuneration of key management who received remuneration directly from the authority is as follows:

	<b>2014 Kshs</b>
Director's emoluments	11,589,340
Key management compensation	
CEO's salary and benefits	1,216,741
<b>Total</b>	<b>12,806,081</b>

### Financial Risk Management

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

### Fair values

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

	Carrying amount	Fair value
	KSh	KSh
<b>Financial Assets</b>		
<b>At 30 June 2014</b>		
Receivables from non-exchange transactions	53,145,882	53,145,882
Cash and cash equivalents	37,455,245	37,455,245
	90,601,127	90,601,127
	Carrying amount	Fair value
	KSh	KSh
<b>Financial Liabilities</b>		
<b>At 30 June 2014</b>		
Trade payables from exchange transactions	8,452,635	8,452,635
	<b>8,452,635</b>	<b>8,452,635</b>

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

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

#### Credit risk

Credit risk is the risk of financial loss to the authority if customers or counterparties to financial instruments fail to meet their contractual obligations. The authority's credit risk is primarily attributable to its receivables and cash and cash equivalents. The company's management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors before extending credit. The carrying amount of financial assets represents the maximum credit exposure. The credit risk on liquid funds with financial institutions is low, because the counter parties are banks with high credit-ratings. The maximum exposure to credit risk as at 30 Jun 2014 was:

	Fully performing	Past due	Impaired	Total
	KSh	Ksh	Ksh	Ksh
Non exchange receivables	50,000,000	-	-	-
Cash and cash equivalents	37,455,245	-	-	-
	87,455,245	-	-	-
Maximum exposure to credit risk	87,455,245	-	-	-

The average credit period on services rendered is 90 days from date of invoice. Debts above 90 days old are classified as past due. The authority provides fully for all receivables outstanding over 365 days where there is no evidence of expected recovery. The clients under the fully performing category are paying their debts as they continue dealing with the authority. The default rate is low.

#### Credit quality

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

available from the regulatory authority, the Central Bank of Kenya.

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

### Receivables

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

### Cash and cash equivalents

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

### Liquidity risk

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

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

	Less than 1 month Sh	Between 1-3 months Sh	Over 5 months Sh	Total Sh
<b>At 30 June 2014</b>				
<b>Trade payables from exchange transactions</b>	8,452,635	-	-	8,452,635
	<u>8,452,635</u>	<u>-</u>	<u>-</u>	<u>8,452,635</u>

### Market risk

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

### Price risk

The authority does not hold investments that would be subject to price risk; hence this risk is not relevant.

#### (ii) Interest rate risk

The authority does not hold any interest bearing liabilities or assets; hence this risk is not relevant.

#### Foreign currency risk

The authority did not have any foreign currency denominated transactions during the year.

#### Capital risk management policies

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

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

**Taxation.**

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

Events after the reporting period

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

The financial statements are presented in Kenya shillings.