

REPUBLIC OF KENYA



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REPORT



OF

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR ENDED
30 JUNE 2016**



**MICRO & SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**



**MICRO AND SMALL ENTERPRISES AUTHORITY
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2016**

**MICRO & SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

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I. KEY AUTHORITY INFORMATION AND MANAGEMENT

(a) Background Information

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

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

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

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

(b) Principal Activities of the Authority

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

(c) Key Management

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

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2016 and who had direct fiduciary responsibility were as detailed in page (ix).

(e) Fiduciary Oversight Arrangements

The board of directors has formed an Audit and Risk Committee consisting of 5 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.

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(iii) Monitor adequacy of internal accounting procedures & controls.

(f) Authority's Headquarters

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

(g) Authority's Contacts

Office of the Chief Executive Officer
Telephone: (254)020-3340006/0700-666000
E-mail: msea@mseauthority.go.ke/ msekenya@gmail.com
Website: 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
Office of the auditor General
Anniversary Towers, University Way
P.O.Box 30084
GOP 00100
Nairobi, Kenya

(j) Principal Legal Adviser




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

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II. THE BOARD OF DIRECTORS

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

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

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Mr. Richard N. Muteti: Director

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



Mr. Anthony Kwache: Director

Mr Anthony Kwache was born on 12th December 1971. Mr Kwache joined the Micro and Small Enterprises sector in the year 1995 after a stint in formal employment as a newspaper vendor and selling merchandise in Nairobi and later moved to Kisumu the same year to continue along Oginga Odinga Street. In the year 1999 he started supplementing his income by venturing into vegetables farming in his rural home. During this period he was elected to be the chairperson of the traders, shoe shiners and the newspaper vendors in Kisumu to lead in advocating for their recognition and provision of a suitable environment for their businesses. He also joined hands with the Jua Kali Associations to champion for the enactment of laws and regulations that could enhance the governance and growth of the valuable sectors.

In the year 2005 when the Institute of Economic Affairs was conducting a research on the organizing and governance of the trade and service sectors, Mr Kwache was part of the team and was first elected in 2008 as a co-opted member of the management board and national executive member. This gave birth to the Kenya National Association of Street Vendors and Traders (KENASVIT). KENASVIT is a network of small entrepreneurs of who are in service and trade sectors. Back at home he is the chairperson of Kisumu Informal Traders and Economic Support which is affiliated to KENASVIT.




He has championed for provision of adequate worksites for the members of the Jua Kali and other sectors, the enactment of the MSE Act 2012 and has been leading KENASVIT in sensitizing the sector members on the Act and following up on its full implementation. He is also Chairman of Kisumu County MSE Association.



ISAAC MBINGI OKELLO: Director




Born in 1964, Mr. Isaac Mbingi Okello holds a Master of Commerce Degree (Business Management) with over 20 years' experience in Human Resource and Administration in both the public and private sector. He is an Advocate of the High Court of Kenya and holder of a Post Graduate Diploma in Law from the Kenya School of Law and a Bachelor of Laws Degree from the University of Nairobi. He is currently the Administrative Secretary, Central organization of Trade Unions, Kenya (COTU- K). He is a member of the Kenya Institute of Management and the Law Society of Kenya.

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

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III. MANAGEMENT TEAM

MANAGEMENT NAMES	MANAGEMENT DETAILS
	<p>Mr. Patrick Z.K. Mwangi: Chief Executive Officer Born 29th February 1964, Mr Patrick Mwangi holds a Masters Degree from the University of Manchester, UK in the field of Governance of Public Policy and Management. He has vast exposure and training in Project, finance and human Management within the public sector, agri-business and environmental conservation. His innovative and decision making skills have Transformed opportunities, integrating analytical Change and professionalism in realizing successful implementation of policies in various sectors. He is a career Administrator having worked in many parts of the country diverse Ministries both the Executive and polity levels.</p>
	<p>Mr. Aloys O. Ojiambo: Deputy Director Administration & Business Development Services Born on 7th 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.</p>
	<p>Mr. Joseph Kimwele: Head, Finance and Accounts Born 1979, Mr. Kimwele holds Masters degree in Finance, has a Bachelor degree in B.Com (Accounting) and Certified Public Accountant CPA(K) Has worked as a Finance Officer for a period of 8 years in the Public Service.</p>

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IV. CHAIRMAN'S STATEMENT

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

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

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

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

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

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

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

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



Charles Waithaka, Chairman

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V. REPORT OF THE CHIEF EXECUTIVE OFFICER

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

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

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

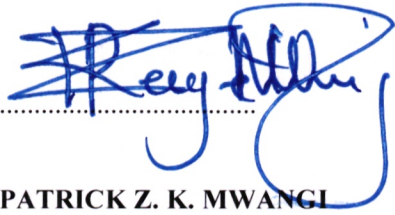
In order to meet its objectives, the Board invested in development of a five (5) year Strategic Plan 2013-2017 which is currently being reviewed in light of limited resources. Similarly, to realize the potential of the sector, it is important to empower the Micro and Small Enterprise Authority (MSEA) to overcome the challenges that it has been facing in fulfilling its mandate. It is towards this end that the Ministry initiated the process of delinking the Authority by establishing a Delinking Committee which has since finalized development of the Delinking Report.

During the period under review, the Authority achieved the following; facilitated 2000 MSEs to attend various exhibitions and Trade fairs such as the 15th EAC Jua Kali /Nguvu Kazi Exhibition held in Dar-es Salaam Tanzania where 160 MSEs participated. Further, the Authority facilitated capacity building of 3797 MSEs in skills upgrading, entrepreneurship, and Business Management. In addition, the Authority developed a MSE Product Competitiveness “Ufanisi Wa Bidhaa” programme where 235 products were identified for quality improvement. Also, MSEA developed MSE Act Regulations and MSE worksite management regulations and submitted them to the Office of the Attorney General for legal Vetting. Finally, the Authority created 41,275 direct jobs in the MSE sector.

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

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



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

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VI. CORPORATE GOVERNANCE STATEMENT

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

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

The Role of the Board

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

The Directors bring a wealth of experience and knowledge to the Board's deliberations. Except for direction and guidance on general policy, the Board delegates authority of its day-to-day activities to the Management through the 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.

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Committees of the Board

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

a) Audit and Risk management Committee

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

b) Finance, Human Resource and Administration Committee

The Committee reviews and provides recommendations on issues relating to all human resource policies and procedures, Resource mobilization, work planning and budgeting, procurement oversight, performance contracting and ensuring compliance with legal and statutory requirements. The Committee held 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

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Conflict of Interest

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

Directors Emoluments

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

VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

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

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

The Authority's major source of funding has been through the Exchequer from the National Treasury in the form of Recurrent and Capital grants. 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.

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VIII. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2016 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, 2016 are set out on pages 1 to 22.

Directors

The members of the Board of Directors who served during the year are shown on pages (v) to (viii).

Auditors

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

MICRO & SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016
REPORT OF THE DIRECTORS

IX. 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, 2016. 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, 2016, and of the Authority's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

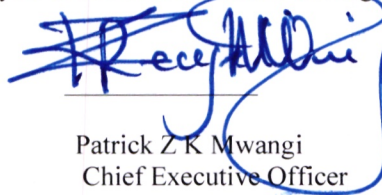
Nothing has come to the attention of the Directors to indicate that the Authority will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

This is the Authority's financial statements for the year ended 30th June 2016 and signed by:



Charles Waithaka
Chairman



Patrick Z K Mwangi
Chief Executive Officer

Date.....30/9/2016

Date.....30/9/2016

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON MICRO AND SMALL ENTERPRISES AUTHORITY FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Micro and Small Enterprises Authority set out on pages 1 to 21, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of changes in net assets, statement of cash flows, 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.

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 Standards (Accrual Basis) 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 47 of the Public Audit Act, 2015.

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 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. 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

Report of the Auditor-General on the Financial Statements of Micro and Small Enterprises Authority for the year ended 30 June 2016

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 controls relevant to the entity'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 qualified audit opinion.

Basis for Qualified Opinion

1. Property, Plant and Equipment

As reported in the previous year, the property, plant and equipment balance of Kshs.61,737,552 as at 30 June 2016 excludes the value of 154 industrial development centres. Further, some other non-current assets of undetermined value are held in custody by the Authority for transmission to various Constituency Industrial Development Centres (CIDCs). In addition, the list, location and the value of the assets meant for onward transmission to CIDCs as well as the signed report of the parent Ministry delinking the centres from the Authority was not availed for audit review. Apparently, the management of the Authority has not taken stock of all its land, buildings and other properties and valued them to establish their accounting treatment in the Authority's books of account.

In the circumstances, it has not been possible to confirm that the property, plant and equipment balance of Kshs.61,737,552 as at 30 June 2016 is fairly stated.

2. Payment for Security Bills

As previously reported in 2014/2015, the parent Ministry transferred to Constituency Industrial Development Centres (CIDCs) liabilities totalling to Kshs.105 million which had accrued up to 31 December 2014 and further instructed the Authority to make payments totalling to Kshs.50 million before the contract to transfer CIDCs was signed between the Ministry and the Authority. It was however noted that the management approved the payment of security services to various security firms totalling Kshs.47,460,760 before the CIDCs were handed over to the Authority by the Ministry and before the handing-over agreement between the Authority and the parent Ministry was signed on 29 January 2015. The outstanding balance of security services as at 30 June 2015 amounted to Kshs.57,539,240. Clause 5(i) of the signed contract clearly indicated that the Ministry had undertaken to pay all the pending and current bills relating to security services for the existing contracts up to 3 December 2014 before

handing over to the CIDCs but the Authority's management went ahead and paid the bills owed by the Ministry before signing the agreement and yet there was no provision for payment of security services in the budget.

During the year under review, the Authority made payments totalling Kshs.22,493,912 leaving a balance of Kshs.38,980,528 as at 30 June 2016. However the balance of Kshs.22,493,912 includes Kshs.1,628,000 paid to two local firms which were not included in the Authority's outstanding bills statement as at 30 June 2015. The anomaly indicates that outstanding creditor balances were not reconciled prior to the payments. In addition, some of the payments were supported by undated invoices and photocopies of documents while others were new invoices raised during the year under review purporting to support services provided during the financial years 2013/14 and 2014/15. No explanation has been provided why the service providers failed to provide certified copies of original invoices issued to the parent Ministry. These anomalies cast doubt on the validity of the security services totalling to Kshs.38,980,528 debts reported as at 30 June 2016.

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

3. Non-Compliance with Procurement Laws and Regulations

During the year under review, the Authority procured and paid for a machine (Bar-Sheer) for use at the common user facility at Kariobangi Center of Excellence from a local company at a cost of Kshs.6,200,000 without any formal contract. The tender Committee Minutes of 17 June 2015 indicate that the Authority used "request for quotation" as the procurement method. However, the Public Procurement and Disposal (amendment) Regulations, 2013 sets that the maximum level of expenditure under request for quotation method of procurement at Kshs.2,000,000 and a minimum of Kshs.6,000,000 under national open tender.

Further, the Authority did not enter into formal contract with the supplier considering the complexity and significant cost of the machine. Although the machine was delivered in December 2015, it had not been commissioned as at 30 August 2016 despite the supplier having been fully paid. Therefore, the Authority failed to comply with public procurement laws and regulations and further, the management's failure to commission the machine implies that the Authority did not obtain value-for-money from the purchase costing Kshs.6,200,000.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Micro and Small Enterprises Authority as at 30 June 2016, and of

its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Micro and Small Enterprise Act, 2012 of the Laws of Kenya.

Emphasis of Matter

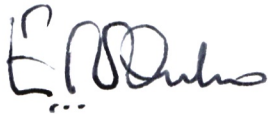
1. Weak Internal Controls

Note 6 to the financial statements, indicates that the Authority relies on staff members deployed from the parent Ministry with the exception of the Chief Executive Officer. Consequently, the Authority does not have full control of staff members, which hampers service delivery and execution of the Authority's mandate. In addition, other than in technical functions, the Authority has no formal structures and lacks competent staff members.

2. Financial Performance

During the year under review, the Authority reported a deficit of Kshs.49,074,526 (2014/2015 deficit Kshs.69,138,804) resulting into a negative working capital of Kshs.10,570,823 as at 30 June 2016. The unfavourable capital balance casts doubt on sustainability of the services offered by the Authority and its operations in future will depend on funding by the Government.

My opinion is not qualified in respect of these matters.



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

Nairobi

27 March 2017

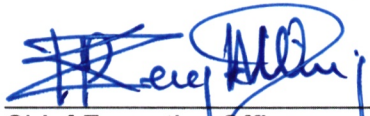
**MICRO AND SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

XI. STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2016

	Note	2016 Kshs	2015 Kshs
ASSETS			
Current assets			
Cash and cash equivalents	10	7,097,273	78,600,456
Receivables from non-exchange	11	<u>29,400,669</u>	<u>2,967,341</u>
		<u>36,497,942</u>	<u>81,567,797</u>
Non-current assets			
Property, plant and equipment	14	<u>61,737,552</u>	<u>51,426,179</u>
Total assets		<u>98,235,494</u>	<u>132,993,976</u>
LIABILITIES			
Current liabilities			
Trade and other payables from			
Exchange transactions	13	46,527,931	65,847,793
Provision for audit fees	14	400,000	120,000
Withholding Tax		<u>140,834</u>	
			=
Total liabilities		<u>47,068,765</u>	<u>65,967,793</u>
Reserves			
Accumulated Surplus		(39,419,875)	9,654,651
Capital Grant		90,586,603	57,371,532
Total Reserves		<u>51,166,728</u>	<u>67,026,183</u>
Total net assets and liabilities		<u>98,235,494</u>	<u>132,993,976</u>

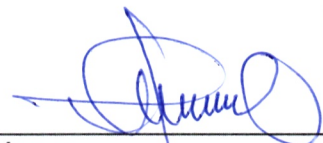
The Financial Statements set out on pages 1 to 22 were signed on behalf of the Board of

Directors on 30th sept 2016 by:



Chief Executive Officer

Date: 30/09/2016



Chairman

Date: 30/9/2016

The notes set out on pages 7 to 22 form an integral part of the Financial Statements

MICRO AND SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

XII. STATEMENT OF FINANCIAL PERFORMANCE
For the year ended 30th June 2016

REVENUE	Note	2016 Kshs	2015 Kshs
Revenue from non-exchange transactions			
Government grants	3	144,298,739	306,539,219
Grant for donor funded project	4	<u>1,065,747</u>	<u>1,960,083</u>
		145,364,486	307,499,302
Revenue from exchange transactions			
Other income	5	<u>1,675,585</u>	<u>1,962,241</u>
Total revenue		<u>147,040,071</u>	<u>310,454,543</u>
EXPENSES			
Staff salaries	6	8,057,331	17,801,536
General Expenses	7	151,350,235	319,731,414
Board Expenses	8	13,403,335	16,890,759
Audit fee		400,000	120,000
Depreciation	9 & 14	22,903,695	8,496,820
Research & Development		<u>-</u>	<u>16,552,818</u>
Total Expenses		<u>196,114,596</u>	<u>378,593,347</u>
Surplus / Deficit		<u>(49,074,526)</u>	<u>(69,138,804)</u>

The notes set out on pages 7 to 22 form an integral part of the Financial Statements

MICRO AND SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016
XIII. STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 Kshs	2015 Kshs
Surplus from operating activities		(49,074,526)	(69,138,804)
Adjustments for:			
Depreciation	14	22,903,695	16,552,818
Provision		<u>-</u>	<u>120,000</u>
		(26,170,831)	(52,585,986)
Adjustments for working capital changes			
Increase (Decrease) in Payables		(18,899,028)	50,178,541
(Increase) decrease in Receivables		<u>(26,433,328)</u>	<u>57,395,158</u>
Net cash generated from operating		<u>(71,502,039)</u>	<u>107,573,699</u>
Cash flow from investing Activities			
Purchase of fixed Assets		<u>(33,215,064)</u>	<u>(56,842,496)</u>
Net cash inflow from investing Activities		33,215,064	(56,842,496)
Financing Activities			
Capital Grants from Treasury		<u>33,215,064</u>	<u>43,000,000</u>
Net cash flow from Financing activities		<u>33,215,064</u>	<u>43,000,000</u>
Decrease in cash & cash equivalent		(71,503,186)	41,145,217
Cash & Cash Start of the year		<u>78,600,456</u>	<u>37,455,246</u>
Cash & Cash equivalent Year end		<u>7,097,270</u>	<u>78,600,463</u>

The notes set out on pages 7 to 22 form an integral part of the Financial Statements

**MICRO AND SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

XIV. STATEMENT OF CHANGES IN NET ASSETS

	Reserves	Capital Grants	Total
	Kshs	Kshs	Kshs
Balance as at 30 JUNE 2013	-	-	-
Surplus for the period	78,793,455		78,793,455
Capital Grants for 2013/2014	-	14,371,539	14,371,539
Balance as at 30 JUNE 2014	<u>78,793,455</u>	<u>14,371,539</u>	<u>93,164,994</u>
Balance as at 1st July 2014	78,793,455	14,371,539	93,164,994
Surplus for the period 2014/15	(69,138,804)	-	(69,138,804)
Capital Grants Received for 2014/2015	-	-	-
Assets purchased from Capital Grants	-	43,000,000	43,000,000
Balance as at 30 June 2015	<u>9,654,651</u>	<u>57,371,539</u>	<u>67,026,190</u>
Balance as at 1st July 2015	9,654,651	57,371,539	67,026,190
Surplus for the period 2015/16	(49,074,526)	-	(49,073,380)
Assets purchased from Capital Grants	-	33,215,064	33,215,064
Balance as at 30th June 2016	<u>(39,419,875)</u>	<u>90,586,603</u>	<u>51,166,728</u>

The notes set out on pages 7 to 22 form an integral part of the Financial Statements

MICRO AND SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016
XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL

	Approved Estimates	2016 Actual	Variance
REVENUE	Kshs	Kshs	Kshs
Development Grant	100,000,000	100,000,00	-
Recurrent Grant	77,880,440	77,513,803	366,637
Grant from ILO	699,110	1,065,747	(366,637)
Fees, Levies or Charges	2,000,000	1,675,585	324,415
Total Revenue			
EXPENSES			
Domestic travel	15,000,000	17,309,473	(2,309,473)
Printing supplies and advertisement	7,000,000	6,326,035	673,965
Utilities	1,900,000	1,481,830	418,170
Communication Supply Services	3,000,000	3,355,479	(355,479)
Rent	14,500,000	13,854,969	645,031
Training Expenses	2,000,000	5,204,901	(3,204,901)
Training Expenses (MSEs)	25,100,000	1,013,871	24,086,129
Hospitality Supplies & Services	12,000,000	11,361,324	638,676
General Office Supplies	13,000,000	5,979,903	7,020,097
Routine Maintenance	6,000,000	3,647,703	2,352,297
Jua Kali Nguvu Kazi/Marketing	41,800,000	41,335,628	464,372
Promotion of entrepreneurship	6,000,000	6,903,030	(903,030)
MSe Worksites And CIDCs		3,363,527	(3,363,527)
Bank Charges		333,202	(333,202)
Refined fuel and Lubricants	1,600,000	1,726,699	(126,699)
Contracted professional Services	16,900,000	19,829,865	(2,929,865)
Contracted guards & cleaning	10,000,000	7,687,223	2,312,777
Staff costs	8,000,000	8,057,331	(57,331)
Security Services for CIDCs	33,500,000	19,276,984	14,223,016
Purchase of Equipment for products value Addition	15,000,000	19,174,081	(4,174,08)
Purchase of Motor Vehicles	14,500,000	14,040,983	459,017
Total Expenses			

EXPLANATORY NOTES ON MATERIAL VARIANCES

1. Domestic Travel- the over expenditure was as a result of implementation of new rates in Daily Subsistence Allowance as reviewed by Salaries and Remuneration Commission.
2. Training Expenses- The over expenditure resulted from increased demand to train officers who were due for promotion (Senior Management Course), these staff are seconded from the Ministry and are on Ministry payroll.
3. Training Expenses MSEs- the under expenditure resulted from huge budget cut in implementation of Austerity measures by National Treasury implemented during the FY
4. Office General Supplies- The under expenditure resulted from budget cut in implementation of Austerity measures by National Treasury implemented during the FY

**MICRO AND SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

5. Routine Maintenance- The under expenditure resulted from budget cut in implementation of Austerity measures by National Treasury implemented during the FY
6. MSE worksites and CIDCs- There was no budget allocation, this was an expenditure for CIDCs security which was wrongly charged it should fall under Security Services for CIDCs which is under expensed
7. Contracted professional Services – The over expenditure resulted from wrong account charged, it should fall under Security Services for CIDCs which is under expensed
8. Purchase of equipment for value addition- The machinery was imported and took longer to be delivered occasioning changes in forex.

The notes set out on pages 7 to 22 form an integral part of the Financial Statements

MICRO AND SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016
XVI. NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance and basis of preparation

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

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

2. Summary of significant accounting policies

a) Revenue recognition

- i) Revenue from non-exchange transactions

Fees, taxes and fines

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

Transfers from other government entities

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

- i) Revenue from exchange transactions

Rendering of services

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

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

Sale of goods

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

**MICRO AND SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

Notes to the financial statements Cont'd

Interest income

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

b) Budget information

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

c) Taxes

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.

d) Property, plant and equipment

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

**MICRO AND SMALL ENTERPRISES AUTHORITY
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

Notes to the financial statements Cont'd

Depreciation

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

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

a) 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.

b) 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.

g) 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

Notes to the financial statements Cont'd

- 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.

h) 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)

i) Financial liabilities

Initial recognition and measurement

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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.

Notes to the financial statements Cont'd

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.

i) 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.

j) Provisions

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

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.

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

Notes to the financial statements Cont'd

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.

k) Nature and purpose of reserves

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

l) Changes in accounting policies and estimates

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

n) Foreign currency transactions

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

o) 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.

p) Related parties

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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.

Notes to the financial statements Cont'd

q) Cash and cash equivalents

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

r) Comparative figures

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

s) Significant judgments and sources of estimation uncertainty

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

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

Impairment losses on trade and other receivables

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

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts

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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.

Notes to the financial statements Cont'd

i) Key sources of estimation uncertainty

Impairment of assets

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

Plant and equipment

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

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

Fair value estimation – financial instruments

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

t) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2015.

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3. Government grants

	2016	2015
	Kshs	Kshs
GOK grants	177,513,803	349,532,218
Recurrent	77,513,803	106,532,218
Development	100,000,000	243,000,000

	2016	2015
	Kshs.	Kshs
4. Grants from international labour Organisation	<u>1,065,747</u>	<u>1,960,083</u>
Total	<u><u>1,065,747</u></u>	<u><u>1,960,083</u></u>

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

5. Other incomes

	2016	2015
	Kshs	Kshs
Nairobi ASK fees		
Kariobangi Centre of Excellence	1,675,585	1,962,241
Nguvu Kazi Fees		
Total	<u><u>1,675,585</u></u>	<u><u>1,962,241</u></u>

6. Staff Salaries

	2016	2015
	Kshs	Kshs
Staff Salary	<u>8,057,331</u>	<u>17,801,536</u>
Total	<u><u>8,057,331</u></u>	<u><u>17,801,536</u></u>

Note: With exception of the Chief Executive Officer, all other staff working for the Authority were seconded by the Ministry of Industrialisation and hence their salaries were paid by the ministry. During the year, the

7. General expenses:

	2016	2015
	Kshs	Kshs
Domestic travel	17,309,473	23,583,439
Foreign Travel	-	1,314,605
Printing supplies and advertisement	6,326,035	28,497,520
Utilities	1,481,830	1,665,204
Communication Supply Services	3,355,479	7,363,858
Rent	13,854,969	12,217,851
Training Expenses	5,204,901	16,959,202
Training Expenses (MSEs)	1,013,871	4,304,500
Hospitality Supplies & Services	11,361,324	11,805,605
General Office Supplies	5,979,903	19,713,538
Repairs and Maintenance	3,647,703	8,832,438
Marketing/Jua Kali Nguvu Kazi	41,335,628	37,662,360

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Kariobangi Centre	635,574	8,315,666
Promotion of entrepreneurship	6,903,030	10,600,000
MSEs Worksites And CIDCs	3,363,527	5,038,042
Bank Charges	333,202	-
Refined fuel and Lubricants	1,726,699	2,732,015
Contracted professional Services	19,829,865	2,354,000
Contracted guards	7,687,223	105,000,000
Total	<u>151,350,235</u>	<u>319,731,414</u>

8. Board Expenses

	2016	2015
	Kshs	Kshs
Sitting allowance	5,327,515	8,930,683
Mileage	161,953	481,364
PAYE	468,000	2,242,758
Training/Others expenses	5,396,462	3,379,020
Travel Expenses	436,900	493,456
Medical Insurance	1,375,514	544,023
Honoraria	237,000	819,455
Total	<u>13,403,335</u>	<u>16,890,759</u>

9. Depreciation and Amortisation

	2016	2015
	Kshs	Kshs
Property, Plant , Equipment & Motor Vehicles	22,903,695	16,552,818
Total	<u>22,204,460</u>	<u>16,522,818</u>

10. Cash and Cash Equivalent

	2016	2015
	Kshs	Kshs
Bank balances	7,097,273	78,600,456
Total	<u>7,097,273</u>	<u>78,600,456</u>

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14. Fixed Asset Schedule

	Office Equipment and Furniture Kshs	Computers Kshs	Motor Vehicles KShs	Fittings/ Refurbishment Kshs	Totals KShs
Cost					
At30 June2013	-	-	-		-
Additions	4,872,080	3,013,960	6,485,499		14,371,539
Disposals	-	-	-		-
At30 June2014	4,872,080	3,013,960	6,485,499		14,371,539
Depreciation and impairment					
At30 June2013	-	-	-		-
Depreciation	609,010	1,004,653	1,621,375		3,235,038
Disposals	-	-	-		-
Impairment	-	-	-		-
At 30 June2014	609,010	1,004,653	1,621,375		3,235,038
1 st July 2015	4,872,080	3,013,960	6,485,499		14,371,539
Additions 2015	3,998,100	17,533,500	20,532,032	14,778,864	56,842,496
Total June2015	<u>8,870,180</u>	<u>20,547,460</u>	<u>27,017,531</u>	<u>14,778,864</u>	<u>71,214,035</u>
1 st July 2016	8,870,180	20,547,460	27,017,531	14,778,864	71,214,035
Additions during	17,040,081	2,134,000	14,040,983		33,215,064
Total for the year	<u>25,910,261</u>	<u>22,681,460</u>	<u>41,058,514</u>	<u>14,778,864</u>	104,429,099
Depreciation					
1/7/16 balance	1,717,782	7,846,957	8,375,758	1,847,354	19,787,851
Charge for the year	3,238,783	7,552,926	10,264,628	1,847,358	22,903,695
Total 30/6/16	<u>4,956,565</u>	<u>15,399,883</u>	<u>18,640,386</u>	<u>3,694,712</u>	<u>42,691,546</u>
NBV 30/6/16	<u>20,953,696</u>	<u>7,281,576</u>	<u>22,418,127</u>	<u>11,084,152</u>	<u>61,737,552</u>
NBV 30/6/15	<u>7,152,398</u>	<u>12,700,503</u>	<u>18,641,773</u>	<u>12,931,510</u>	<u>51,426,179</u>

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15. Related party transactions	2016	2015
The remuneration of key management who received remuneration directly from the authority is as follows:	Kshs	Kshs
Director's emoluments	13,403,334	16,890,759
Total	<u>13,403,335</u>	<u>16,890,159</u>

16. 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
Financial Assets	2016	2015
	KSh	KSh
Receivables from non-exchange transactions	29,400,669	2,967,341
Cash and cash equivalents	<u>7,097,273</u>	<u>78,600,456</u>
Financial Liabilities		
Trade payables from exchange transactions	<u>8,265,675</u>	<u>8,452,635</u>
	<u>8,265,675</u>	<u>8,452,635</u>

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

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

Credit risk

Credit risk is the risk of financial loss to the authority if customers or counterparties to financial instruments fail to meet their contractual obligations. The authority's credit risk is primarily attributable to its receivables and cash and cash equivalents. The company's management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors before extending credit. The carrying amount of financial assets represents the maximum credit exposure. The credit risk on liquid funds with financial institutions is low, because the counter parties are banks with high credit-ratings. The maximum exposure to credit risk as at 30 Jun 2016 was:

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	Fully performing KSh	Past due Ksh	Impaired Ksh	Total Ksh
Non exchange receivables	-	-	-	-
Cash and cash equivalents	7,097,273	-	-	7,097,273
	<u>7,097,272</u>	<u>-</u>	<u>-</u>	<u>7,097,273</u>
Maximum exposure to credit risk	=====	=====	=====	=====

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

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disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts, as the impact of discounting is not significant.

Market risk

	Less than 1 month Sh	Between 1-3 months Sh	Over 5 months Sh	Total Sh
At 30 June 2016				
Trade payables from exchange transactions	8,265,675	-	38,262,256	46,527,931
	8,265,675	-	38,262,256	46,527,931
	=====	=====	=====	=====

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

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

Capital risk management policies

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

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

17. Taxation.

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

18. Events after the reporting period

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

19. Reporting Currency

The financial statements are presented in Kenya shillings.

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

XVII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue/Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	Property Plant and Equipment Property, plant and equipment balance of Kshs. 51,426,179 as at 30 June 2015 excludes the value of the 154 industrial development centres.	The Management has engaged the Ministry to finalise delinking report and fastrack full delinking of the Authority's Assets including CIDCs	CEO Board	Delinking report approved awaiting National Treasury to provide funding	30th June 2017.
2	Trade and Other Payables Trade and other payables balance of Kshs. 65,847,793 as at June 2015 constitute an amount of Kshs. 8,308,553 being trade creditors while the balance of Kshs. 57,539,240 relates to outstanding security dues, balance of which remained outstanding after clearance of Kshs. 47,460,790 out of the total Kshs. 105m inherited from the parent Ministry under unclear circumstances.	The Authority has paid off part of the Trade and other payables to the tune of Kshs 8,308,553. Further, we seeking funding form supplementary budget to finalise the payment of outstanding bills	CEO Board	Funds appropriated during supplementary budget	30th June 2017
Other Matters					

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	<p>Payment of Security Bills The Authority made payments of Kshs.50 million before the contract was signed by the two parties for transferring CIDCs to MSEA to security services for the existing contracts up to 3/12/2014 before handing over but MSEA went ahead and paid for it when it was not even budgeted for.</p>	<p>The Management has engaged the Ministry to finalise delinking report and fastrack full delinking of the Authority's Assets including CIDCs</p>	<p>CEO Board</p>	<p>Delinking report approved awaiting National Treasury to provide funding</p>	<p>30th June 2017.</p>
4	<p>Ineffective Internal Controls The Authority does not have an internal audit section as an independent function designed to set up and implement effective internal control systems as far as the organization operations are concerned.</p>	<p>The management has fastracked delinking which will authorise the Authority to recruit its own staff</p>	<p>CEO Board</p>	<p>Delinking report approved awaiting National Treasury to provide funding</p>	<p>30th June 2017.</p>

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