

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR ENDED
30 JUNE 2014**





KENYA INDUSTRIAL PROPERTY INSTITUTE

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED JUNE 30, 2014

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

VISION OF KENYA INDUSTRIAL PROPERTY INSTITUTE

Be a centre of excellence in protection, training and promotion of Industrial Property Rights in a competitive global market.

MISSION OF KENYA INDUSTRIAL PROPERTY INSTITUTE

To administer Industrial Property Rights through; protection, provision of information and training and promotion of inventive and innovative activities for socio-economic development.

CORE VALUES

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

(i) Customer Satisfaction

The Institute is committed to satisfying its customers in service delivery.

(ii) Team Work

The Institute is committed to nurturing a team work culture as a means of assuring quality in the delivery of services.

(iii) Professionalism

In order to realize its vision and mission, the Institute is committed to maintaining high standards of professionalism.

(iv) Integrity

The Institute is committed to maintaining high standards of integrity.

(v) Creativity and Innovation

To cope with the emerging national, regional and international issues, the Institute will continue to be creative and innovative.

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I. KENYA INDUSTRIAL PROPERTY INSTITUTES INFORMATION AND MANAGEMENT

(a) Background Information

The Kenya Industrial Property Institute is a body corporate established under the Industrial Property Act 2001. The Act came into effect on 2nd May, 2002, but the Board was inaugurated in 2004 when the Institute was operating as Kenya Industrial Property Office in the Ministry of Trade and Industry. It is also worth noting that KIPi got authority to open an account in July, 2005.

(b) Core Functions

The core functions of the Kenya Industrial Property Institute are;

- (i) Examine applications for and grant Industrial Property rights for;
 - Patents for inventions
 - Utility models for innovations
 - Industrial designs for aesthetic features of products
 - Trade marks for source identification of goods and services
- (ii) Provide technological information to the public
- (iii) Promote inventiveness and innovativeness in Kenya
- (iv) Screen technology transfer agreements and licences
- (v) Organise and conduct training, competition and award in Industrial Property (IP)

(c) Key Management

Kenya Industrial Property Institute's day-to-day management is under the following key organs:

- Managing Director
- Deputy Managing Director/Finance, Planning & Administration
and
- Deputy Managing Director/Technical Services

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2014 and who had direct fiduciary responsibility were:

Designation	Name
1. Deputy Managing Director/Finance, Planning & Administration	Mr. John Onyango
2. Deputy Managing Director	Mr. Sylvance Sange
3. Chief Legal Officer	Mrs. Eunice Njuguna
4. Chief Information & Documentation Officer	Mr. Charles Bariti
5. Chief Patents Examiner	Mr. David Njuguna
6. Chief Trademarks Examiner	Mr. Leonard Kosgey
7. Chief Administrative Officer	Mr. Samuel Ng'ethe
8. Senior Accountant	CPA Caroline Mawathe

(e) Fiduciary Oversight Functions of Kenya Industrial Property Institute

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

(1) Finance and General Purposes

This is a Committee of the Board and is made up of the following members:-

1. Dr. Marisella N. Ouma – Chairperson
2. Mr. Samuel Wambugu
3. Mr. Godfrey Kalerwa
4. Ms. Eunice Miima
5. Mr. Patrick Abachi
6. Mr Patrick Wandaka – In attendance

The Committee is established to assist the Board in providing guidance in the following areas:

- End of the year financial reports before submission to the Auditor General
- Assessing and monitoring performance of the Institute as per the Strategic Plan and annual Performance Contract.
- Consideration and approval of the Institute's budget and procurement plan.
- Advising the Institute on major capital expenditure projects

(2) Human Resources Committee

It is made up of the following members:

1. Dr. Marisella N. Ouma – Chairperson
2. Mr. David Nguru
3. Mrs. Eunice Miima
4. Mr. Godfrey Kalerwa
5. Mr. Patrick Wandaka – In attendance

The Committee was created to assist the Board in discharging the following functions:-

- Reviewing the terms and conditions of Service for KIPi employees
- Carrying out recruitment and promotion of staff
- Reviewing the Institute's human resource policies

Advising the Board on the best human resource management practices

(3) Audit Committee

It is made up of the following members;

1. Dr. Mary Lopokoiyit
2. Mr. Samuel Wambugu
3. Mr David Nguru
4. Mrs Eunice Miima
5. Mr Patrick Abachi
6. Ms. Peris Wanjohi Internal Auditor- Secretary

The principle responsibilities of the Audit Committee are:-

- Corporate governance- provide support to the Board of Directors in reviewing the effectiveness of KIPi's corporate governance by ensuring the Institute's compliance with legal and regulatory provisions.
- Financial statements and reports - Review the adequacy, reliability and accuracy of the financial statements and reports provided to the board and other users of such information.
- External Audit - Ensuring the management has arrangements to support the audit work of the Auditor-General, being fully briefed on all audit work relating to the Institute through

reports by the Auditor-General describing any material issues raised by their internal control reviews, or by inquiry/ investigation by governmental or professional authorities.

- Internal control, Risk Management and Internal Audit-Consider the effectiveness of KIPIs internal control systems established by Management to ensure compliance with policies, laws and regulations.

(f) The Kenya Industrial Property Institute's Headquarters

Weights & Measures Building,
Popo Road, Off Mombasa Road,
South 'C',
P.O. Box 51648 – 00200
City Square,
Nairobi, Kenya

(g) The Institute's Contacts

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

(h) Kenya Industrial Property Institutes Bankers

Kenya Commercial Bank Limited
Kipande House Branch
P.O. Box 30012 – 00100,
Nairobi, Kenya






(i) Independent Auditors

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

(j) Principal Legal Adviser

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

II. THE BOARD OF DIRECTORS

DIRECTOR	QUALIFICATIONS AND WORK EXPERIENCE
 <p>Mr. David M. Nguru BE, MBA, MIP</p>	<p>Mr. David M. Nguru was born on 10th October, 1978. He has Diploma in IT, BE and MBA from Kenyatta University and Masters of IP from WIPO/ARIPO/Africa University. He has worked at KEMRI as a Marketing Officer and Ag. Marketing & IP Manager since 20th August, 2002.</p>
 <p>Mrs. Eunice K. Miima</p>	<p>Mrs. Eunice Miima is the alternate to the Principal Secretary, Ministry of Industrialization and Enterprise Development</p>
 <p>Dr. Marisella N. Ouma</p>	<p>Dr. Marisella N. Ouma a Bachelors of Law (Hons) University of Nairobi, Post Graduate Diploma, Kenya School of Law, Post Graduate Diploma in IP Law, WIPO Academy/University of Turin, Master of Laws, Stockholm University, PhD, Queen Mary University of London. She has worked as a Legal/Programme Officer at Civic Resource and Information Centre from September, 1996 to May, 1997, Senior State /counsel at State Law Office from June, 1997 to July, 2006, Acting Executive Director, State Law Office from August, 2006 to September, 2008 and Executive Director, Kenya Copyright Board from October, 2008 to date.</p>
 <p>Prof. Tom Ojienda</p>	<p>Prof. Tom Odhiambo has Bachelor of Laws, LLB (University of Nairobi), Diploma in Law, Kenya School of Law, Diploma in French, Alliance Francais, Master of Laws (LLM) Kings College, London and Doctorate in Law (LLD) University of South Africa. He has worked Vice-Chair, Rift Valley Law Society of Kenya – 2001-2003, Council Member, Law Society of Kenya, 2003-2005, Chairman, Law Society of Kenya, 2005-2007, President, East Africa Law Society, 2006 – 2008, Vice-President, Pan-African Lawyers Union, 2006 to date and Council Member, International Bar Association, 2006 to date.</p>
 <p>Mr. Samuel Wambugu</p>	<p>Mr. Samuel Wambugu was born on 25th February, 1960. He has a Bachelor of Science (BSc.) in Food Science & Technology, University of Nairobi and Master Degree (MSc) in Food Science University of Pretoria. He has worked as a Secondary School teacher, Munyu Secondary School - 1982-1983, Fisheries Officer – January to April, 1987, Senior Production Supervisor, KCC – May 1987 – December, 1991, Research Officer in Food Technology, KIRDI – 1992 – 1995, Head of the Food Technology Development, KIRDI, 1995-1999, Lecturer, University of Nairobi - 1995 – 2005, Coordinator of Technology Division – 2000-2006, Senior Research Scientist, Technology Transfer and Business Development Manager & Head of KIRDI Campus – 2006 to date.</p>
 <p>Mr. Godfrey Kalerwa</p>	<p>Mr. Godfrey P. Kalerwa was born on 18th May, 1966. He has worked as Research Officer, Chemical Division, KIRDI, Research Officer I, Department of Research Development, Ministry of Science and Technology and Head of Industrial and Allied Sciences 2008 to 2011. He has a MSc. (Chemistry), University of Botswana, Gaborone and MBA (Strategic Management) Moi University. He is the Principal Science Secretary, National Council for Science and Technology responsible for co-ordination and control of professional activities relating to research, science and technology.</p>



Dr. Mary Lopokoiyit




Dr. Mary Lopokoiyit was born on 10th June, 1968. She has Bachelor of Science (MSc.) Agricultural Education, Egerton University, MBA (Human Resource Management) Egerton University, and PhD. Agricultural Education, Egerton University. She worked as a Graduate Teacher II at Kitale Academy from July to September, 1990, Teaching Assistant, Department of Agricultural Education & Extension, Egerton University, October, 1990 – July, 1995, Assistant Lecturer, Department of Agricultural Education & Extension, Egerton University, August, 1995 – May, 1998, Lecturer, Egerton University, May, 1998 to date, Deputy Director, Planning and Development, Egerton University, September 2008 to date, Director, KIPi Board of Directors, July, 2008 to date and Ag. Director, Planning and Development in Egerton University from January, 2013 to date.



Dr. Henry K. Mutai

Dr. Henry Kibet Mutai has Bachelor of Laws (LLB) University of Nairobi, Diploma in Law (Dip Law) Kenya School of Law, Master of Laws (LLM), University of Melbourne and Doctor of Philosophy (PhD), University of Melbourne. He has worked at Chelule & Co. Advocates, 1994-1996, Student Assistant, Temple LEAP Program, September, 1996 –April, 1997, Mediator, Dispute Resolution Program in Philadelphia Municipal Court, USA, December, 1997 to April, 1998, Court Clerk, Emergency Protection from Abuse Program in Philadelphia Municipal Court, USA, July, 1997 – April, 1998, Tutorial Fellow, Faculty of Law, Moi University, February, 1999-June, 2001, Managing Editor, Lawafrica.com, January, 2000 – June, 2004, Visiting Researcher, Trade Law Centre for Southern Africa, June, 2003 – August, 2003 (Tralac) Stellenbosch, South Africa, Research Assistant, Intellectual Property Research, January – December, 2004, Institute of Australia (APRIA), University of Melbourne, Resident Tutor, Janet Clarke Hall, February, 2005 – November, 2005, University of Melbourne, Advocate (Sole Proprietor), H. K. Mutai & Co. Advocates, August, 2006 to date and January, 1999-July, 2001, Tutorial Fellow, School of Law – January-December, 2006, Moi University, Lecturer, School of Law, December, 2006 – April, 2011, Moi University, Senior Lecturer, School of Law April, 2011 to date, Moi University, Managing Director, KIPi, May, 2011 – April, 2014.

III. MANAGEMENT TEAM

MANAGER	AREA OF RESPONSIBILITY
 <p data-bbox="298 738 525 792">Dr. Henry K. Mutai, Managing Director</p>	<p data-bbox="914 318 1125 345" style="text-align: center;">Managing Director</p> <p data-bbox="617 345 1333 371">Overall Leadership and Management of the Institute's Operations</p> <p data-bbox="617 371 1426 947">Dr. Henry Kibet Mutai has Bachelor of Laws (LLB) University of Nairobi, Diploma in Law (Dip Law) Kenya School of Law, Master of Laws (LLM), University of Melbourne and Doctor of Philosophy (PhD), University of Melbourne. He has worked at Chelule & Co. Advocates, 1994-1996, Student Assistant, Temple LEAP Program, September, 1996 –April, 1997, Mediator, Dispute Resolution Program in Philadelphia Municipal Court, USA, December, 1997 to Aril, 1998, Court Clerk, Emergency Protection from Abuse Program in Philadelphia Municipal Court, USA, July, 1997 – April, 1998, Tutorial Fellow, Faculty of Law, Moi University, February, 1999-June, 2001, Managing Editor, Lawafrica.com, January, 2000 – June, 2004, Visiting Researcher, Trade Law Centre for Southern Africa, June, 2003 – August, 2003 (Tralac) Stellenbosch, South Africa, Research Assistant, Intellectual Property Research, January – December, 2004, Institute of Australia (APRIA), University of Melbourne, Resident Tutor, Janet Clarke Hall, February, 2005 – November, 2005, University of Melbourne, Advocate (Sole Proprietor), H. K. Mutai & Co. Advocates, August, 2006 to date and January, 1999-July, 2001, Tutorial Fellow, School of Law – January-December, 2006, Moi University, Lecturer, School of Law, December, 2006 – April, 2011, Moi University, Senior Lecturer, School of Law April, 2011 to date, Moi University, Managing Director, KIPi, May, 2011 – April, 2014.</p>
 <p data-bbox="255 1231 579 1340">Mr. John Onyango Deputy Managing Director/Finance, Planning & Administration</p>	<p data-bbox="636 1111 1426 1231">Mr. John Onyango who is in charge of Formulation & Implementation of the Institute's finance, HR & ICT Policies was born on 4th November, 1965. The holder of Bachelor of Commerce previously worked with the Standard Bank of Kenya.</p>
 <p data-bbox="275 1620 571 1699">Mr. Sylvance Sange Deputy Managing Director Technical Services</p>	<p data-bbox="652 1502 1418 1559">Mr. Sylvance Sange was born on 10th August, 1965. He has Masters in Intellectual Property, Bachelors of Education and Bachelors of Law (LLB).</p>



Mrs. Eunice Njuguna
Chief Legal Officer

Mrs. Eunice Njuguna who is in charge of drafting of legislations in relation to the Institute's Mandate was born on 17th July, 1966. She has Bachelor of Laws (LLB) University of Nairobi, Diploma in Law (Dip Law) Kenya School of Law) and is a member of LSK.



Mr. Charles Bariti
Chief Information & Documentation Officer

Mr. Charles Bariti, who is in charge of formulation, Interpretation & Application of ICT Policies was born on 20th July, 1960. He holds a Bachelors in Library and Information.



Mr. David Njuguna
Chief Patent Examiner

Mr. David Njuguna was born on 8th August, 1966. He is in charge of compiling reports on patents, utility models & industrial designs. He holds a Bachelors in Science (BSc) and Masters in intellectual Property (MIP) Compiling Reports on Patents, Utility Models & Industrial Designs



Mr. Leonard Kosgey
Chief Trademarks Examiner

Mr. Leonard Kosgey is in charge of supervising & coordinating TM Activities. He was born on 23rd June, 1968. He holds a Bachelors of Science (BSc) and a Masters in Intellectual Property (IP).



Mr. Samuel Ng'ethe
Chief Administrative Officer

Mr. Samuel Ng'ethe was born on 31st August, 1969. He oversees the Overall Management of HR & Administration Services. He holds a Bachelors in Administration (BA), Masters in Arts (MA) and a Higher National Diploma in Human Resource Management.



CPA Caroline Mawathe
Senior Accountant

Miss Caroline Mawathe is in charge of Supervision of Accounting Activities. She was born on 29th December, 1969. She has CPA K, a Bachelors in Commerce (BCOM) and a Masters in Business Administration (MBA). She is a member of ICPAK. She is pursuing her PHD.

IV. CHAIRMAN'S STATEMENT

On behalf of the Board, I am delighted to present the Annual Report and Financial Statements of Kenya Industrial Property Institute for the financial year 2013/2014.

During the year, the institute realised significant achievements. The institute has seen its revenue grow from KSh.179,608,497 in 2012/2013 and KSh.196,155,506 in 2013/2014. This revenue increment is linked to the IP awareness the Institute has raised in the country.

In executing its mandate, institute targeted more on universities and colleges to educate the youth more on IP rights and the opportunities they have in that field. This was achieved by organising workshops and conferences in our colleges.



FOR: CHAIRMAN

V. REPORT OF THE MANAGING DIRECTOR

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

- To provide protection of industrial property (IP) rights
- To develop human resource capacity
- To promote inventiveness and innovation in Kenya
- To organize and conduct training on intellectual property
- To expand information technology and institutional infrastructure
- To provide timely and accurate technological information to the public

Since its establishment, Kenya Industrial Property Institute (KIPI) has continuously endeavored to offer the best service to its customers with the number of applications for registration dramatically increasing over the years. With the introduction of automation, the quality of processing applications has been enhanced and this has led to growth in revenues. The Institute has created an outreach unit charged with the responsibility of creating awareness amongst the public on matters of intellectual property. The unit carries out the campaign through different channels including shows, seminars, workshops, exhibitions, and media (both print and electronic) among others. For the period under review, the Institute processed and registered 271 patents, industrial designs and utility models. On trademarks registration, a total of 3144 applications were registered.

To support the growth momentum, the Institute has laid emphasis on automation and digitization of core processes as a way of enhancing efficiency, productivity and quality of services offered. This included acquisition of computer and related equipment, upgrade and modernization of application systems and introduction of payment systems such as M-Pesa as a way of facilitating the ease of doing business.

In the near future, a platform enabling customers to make applications online will be established and this will lead to more applications. An electronic document management system (EDMS) has been introduced for patents and trademarks divisions to fasten the capture of information with the support of World Intellectual Property Organization (WIPO).

The infrastructure upgrade and digitization of operations is expected to cost KSh.150,000,000. KIPi has made requests for financial support as the existing budget cannot support the initiative. In terms of financial performance, KIPi has achieved a steady growth in revenue since delinking from mainstream Government to become a State Corporation in 2005/6. Revenue collections grew from KSh.179,608,497 in the year 2012/2013, to KSh.196,155,506 at the end of 2013/2014. Whereas expenses have grown over the same period from KSh.140,096,527 for the period 2012/2013 to KSh.173,200,562 for 2013/2014. This is largely attributable to increase in personal emoluments as a result of recruitment of more staff, operational expenses as well as increased outreach activities.

In addition, KIPi carried out an organizational review in terms of its structure, salaries and allowances with a view to attract, retain and motivate personnel. Towards the end of financial year, KIPi concluded the acquisition of its own premises. The property is located in upmarket Lavington area. This will address the long standing issue of inadequate office space for staff and enable the Institute to discharge one of its core mandates namely provision of training on Intellectual Property to the public which is not currently being done effectively due to office space.

Despite the achievements, KIPi still faces the challenges of modern office accommodation, development and retention of human resource through a competitive reward and compensation scheme and creation of IP awareness. The Institute developed a strategic plan for 2013-2017 and is on course in the implementation of the strategic



SYLVANCE SANGE
Ag. MANAGING DIRECTOR

VI. CORPORATE GOVERNANCE STATEMENT

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

At Kenya Industrial Property Institute we place a great deal of importance on robust corporate governance practices and are committed to applying the highest standards of business integrity and professionalism in all our activities. It has also introduced individual targets and performance indicators.

The Board of the Institute has formulated and applies sound internal corporate governance guidelines, which address the responsibilities of the Board, management and the staff.

The Board has set up three key Board committees to help in the implementation of its policy guidelines and strategic plan. These include;

- (i) Human Resource and Administration Committee
- (ii) Audit Committee
- (iii) Finance and General Purposes Committee

These Committees meet when there is need and are chaired by selected chairmen who are Board members.

The Committees report their findings to the Board for further deliberations.

The Board meets regularly and has a formal schedule of matters reserved to it. All Board members have access to the Board secretary.


FOR: CHAIRMAN OF THE BOARD

VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

As a responsible corporate citizen, KIPi recognizes the need to engage with its diverse publics and stakeholders through CSR in order to cultivate good relations in the environment we operate in. KIPi's core responsibility to its various stakeholders is to work closely with them to pursue the enhancement and fulfillment of corporate values through sound business practices in order to promote a sustainable society.

The long term strategy is to engage in strategic CSR which will not only benefit our stakeholders but will also strengthen the Authority's corporate strategy and leverage on key focus areas. Some of the key drivers of CSR initiatives in the year 2013/2014 include the following.

Environmental Conservation

In the year 2013/2014, the KIPi planted trees at Utafiti Primary School and supplied them with two water tanks and gutters for water harvesting. The institute has committed to participate in similar activities in the future.

Internship Programs

KIPi continues to offer University and middle level college students work integrated learning specific to their areas of interest in all the sections and departments. In the financial year 2013/2014, the institute gave four interns an opportunity to do practical learning. Under this program, the interns are based at a department for a period of 3 months and a token of motivation is given to them every month.

Safety

In the course of the year, KIPi organized an employee education strategy that continually sensitized staff on the benefits of occupational health and safety. Selected employees underwent basic training on safety in the office and stress management. The institute embraces safety for its staff and client by having related activities in its performance contract and the procurement plan.

VIII. REPORT OF THE DIRECTORS

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

Principal Activities

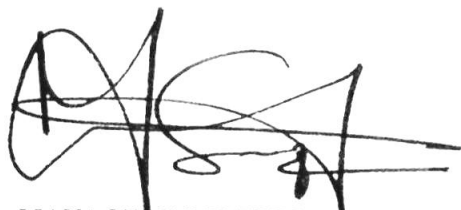
The principal activities of Kenya Industrial Property Institute are:

- (a) Examine applications and grant property rights for:
 - (i) Patents for inventions
 - (ii) Utility models for innovations
 - (iii) Industrial Designs got aesthetic features of products
 - (iv) Trade Marks for source identification of goods and services
- (b) Provide technological information to the public
- (c) Promote inventiveness and innovativeness in Kenya
- (d) Screen technology transfer agreements and licences
- (e) Organise and conduct training, competition and award in Industrial Property (IP)

Results

The results of Kenya Industrial Property Institute for the year ended June 30, 2014 are set as follows:

	2013/14 KSh.	2012/13 KSh.
Total Income for the Year	222,100,317	179,608,497
Less: Total Expenditure for the Year	173,200,562	140,096,527
Operating Surplus	<u>48,899,755</u>	<u>39,511,970</u>



MANAGING DIRECTOR/SECRETARY TO THE BOARD

Appointment of KIPi Board of Directors

Kenya Industrial Property Institute has thirteen (13) Board of Directors as stipulated in the Industrial Property Act 2001. The members are drawn from the following bodies:

- a) Kenya Medical Research Institute (KEMRI)
- b) Kenya Industrial Research and Development Institute (KIRDI)
- c) Institute of Engineers of Kenya (IEK)
- d) Law Society of Kenya (LSK)
- e) State Law Office (AG)
- f) The National Treasury
- g) Kenya National Federation of Jua Kali Artisans (KNFJKA)
- h) Ministry of Industrialization and Enterprise Development (MOIED)
- i) National Council for Science, Technology and Innovations (NACOSTI)
- j) Ministry of Education
- k) Kenya Association of Manufactures (KAM) two (2) members

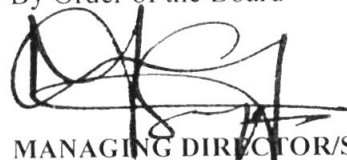
These bodies nominate their representatives to the Cabinet Secretary for Industrialization and Enterprise Development for gazettelement as members of the Board of Directors. The Chairman of the Board of Directors is the ONLY member appointed directly by the Cabinet Secretary.

The members of the Board of Directors who served during the year under review are shown on pages vii & viii.

Auditors

The Auditor General is responsible for the statutory audit of Kenya Industrial Property Institute in accordance with the Section 68 (1) of the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Board



MANAGING DIRECTOR/SECRETARY TO THE BOARD

DATE : 15.04.2015

IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES

The State Corporation Act, the Industrial Property Act 2001 and the Trade Marks Act Cap 506 require the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Institute at the end of the financial year. It also requires the Directors to ensure the Institute keeps proper accounting records, which disclose the reasonable accuracy at any time of the financial position of the Institute. They are also responsible for safeguarding of the assets of the Institute.

The Board members accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgement and estimates in conformity with International Financial Reporting Standards and in the manner required by the State Corporations Act, Industrial Property Act 2001 and the Trade Marks Act Cap 506. The Board members are of the opinion that the financial statements give a true and fair view of the state of the financial affairs. The Board members further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements as well as adequate systems of internal financial control.

Section 15 of the Second Schedule of the Public Finance Management Act, 2012 and Section 14 of the State Corporations Act Cap. 446 of the Laws of Kenya require the Directors to prepare financial statements which give a true and fair view of the state of affairs of Kenya Industrial Property Institute at the end of the financial year/period and the operating results of the Institute for that year/period. The Directors are also required to ensure that the Institute keeps proper accounting records which disclose with reasonable accuracy its financial position. The Directors are also responsible for safeguarding the Institutes assets.

The Directors are responsible for the preparation and presentation of the Institutes financial statements, which give a true and fair view of the state of affairs of the Kenya Industrial Property Institute for and as at the end of the financial year (period) ended on June 30, 2014. This responsibility includes:

- (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;

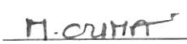
- (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) safeguarding the assets of KIPi;
- (v) selecting and applying appropriate accounting policies; and
- (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Kenya Industrial Property Institute financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards, and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that KIPi's financial statements give a true and fair view of the state of its transactions during the financial year ended June 30, 2014, and of its financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for it, which have been relied upon in the preparation of the Kenya Industrial Property Institute 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 KIPi will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the Financial Statements

The Kenya Industrial Property Institute's financial statements were signed on behalf of the Board by:



Director



Director



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA INDUSTRIAL PROPERTY INSTITUTE FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Industrial Property Institute set out on pages 1 to 23, which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, 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 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of 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 Accounting 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 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 (2) of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of

the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Institute'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 audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Institute as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the Industrial Property Act, 2001 of the Laws of Kenya.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

18 May 2015

X. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2014

	NOTES	2013/14	2012/13
		KSh.	KSh.
Revenue from Exchange Transactions			
Income from Fees	3	196,155,506	161,415,661
Revenue from Non-Exchange Transactions			
GOK Grants - Recurrent	3	5,000,000	7,750,000
GOK Grants - Development		5,852,920	-
Other Incomes			
Fees (ARIPO)	4	14,528,591	5,200,533
Interest Income	4	563,300	5,242,303
Total Revenue		222,100,317	179,608,497
Expenses			
Employee Costs	5	108,560,240	98,925,776
Hospitality		10,434,807	6,003,537
Board Expenses	6	5,001,379	6,512,145
Depreciation and Amortization Expense	7	4,641,185	3,412,826
Repairs and Maintenance	8	8,093,646	7,586,999
General Expenses	9	36,469,305	17,655,244
Total Expenses		173,200,562	140,096,527
Other Gains/(Losses)			
Surplus Before Tax		48,899,755	39,511,970
Surplus for the Period		48,899,755	39,511,970


The notes set out on pages eight to twenty three form an integral part of the Financial Statements.

XI. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

Assets	NOTES	2013/14	2012/13
Current Assets		KSh.	KSh.
Cash and Cash Equivalents	10	60,758,856	390,077,866
Receivables	11	67,475,762	71,672,529
Inventories	12	9,018,258	7,807,490
Sub-Total		137,252,876	469,557,885
Non-current Assets			
Property, Plant and Equipment	13	392,272,591	51,623,196
Intangible Assets	14	556,500	490,000
Sub-total		392,829,091	52,113,196
Total Assets		530,081,967	521,671,081
Liabilities			
Current Liabilities			
Trade and Other Payables	15	464,000	3,450,000
Total Liabilities		464,000	3,450,000
Net Assets		529,617,967	518,221,081
Reserves	16	480,718,212	478,709,111
Accumulated Surplus	17	48,899,755	39,511,970
Total net Assets and Liabilities		529,617,967	518,221,081

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


 AG. MANAGING DIRECTOR
 DATE 15.04.2015


 FOR: CHAIRMAN OF THE BOARD

DATE

XII. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2014

Attributable to the Owners of the Controlling Entity Reserves

	Capital Replacement Development Reserve	Reserve Fund	Special Fund	Minority Interest	Total
	KSh.	KSh.	KSh.	KSh.	KSh.
Balance as at 30 June 2012	35,696,435	216,372,232	187,542,382	-	439,611,049
Growth in Special Fund			3,098,063	-	3,098,063
Surplus/(deficit) for the Period		39,511,970	-	-	39,511,970
Transfers from Surplus for the Year	35,999,999		-	-	35,999,999
Balance as at 30 June 2013	71,696,434	255,884,202	190,640,445	-	518,221,081
*Transfers from Special Fund			(37,000,000)		(37,000,000)
Surplus for the Period		48,899,755			48,899,755
Transfers from Reserves	255,884,202	(255,884,202)	(8,899,949)	-	(8,899,949)
Transfers from Special Fund	80,770,798		(80,770,798)		(80,770,798)
Development Grants	8,397,080				8,397,080
Balance as at 30 June 2014	416,748,514	48,899,755	63,969,698	-	529,617,967
As at 30th June, 2013	71,696,434	255,884,202	190,640,445	-	518,221,081

Notes to the Statement of Changes in Net Assets

*The adjustment of Special fund balance represents 10% deposit payment of KSh.37 M for purchase of new premises at Lavington which was paid in July, 2013 through Deposit Account. Both the Special Fund and Reserve Fund were held by the Institute for the purpose of acquisition of office premises. However, due to inability of the Institute to collect the budgeted amount, KSh.8,899,949 was transferred from the fund to bridge the shortfall in the Recurrent Budget.

Development Grants

During the Financial Year 2013/2014 the Institute received Development Grants amounting to KSh.14,250,000 from the Ministry of Industrialization and Enterprise Development. The Institute utilized KSh.8,397,080 for the purchase of office equipment.

Transfers

The Institute transferred KSh.336,655,000 from reserves for purchase of office block located in Lavington. The Institute further transferred KSh.8,899,049 which was utilized for the payment of the Staff Medical Scheme .

XIII. STATEMENT OF CASH FLOWS AS AT 30 JUNE 2014

	NOTES	2013/14	2012/13
Cash Flows from Operating Activities		KSh.	KSh.
SOURCES OF FUNDS			
Surplus/Deficit for the Year	17	48,899,755	39,511,970
ADJUSTMENTS FOR THE YEAR			
Depreciation	7	4,641,185	3,412,826
OTHER SOURCES			
Collections From Non-Operating Activities		-	3,098,063
Cash Generated from Operating Activities		53,540,940	46,022,859
WORKING CAPITAL ITEMS			
Increase/Decrease in Trade & Other Payables	18	(2,986,000)	400,000
Increase/Decrease in Inventory	18	(1,210,768)	(1,477,491)
Increase/Decrease in Trade & Other Receivables	18	4,196,767	(5,605,248)
Net Cash Flows from Operating Activities		53,540,939	39,340,120
INVESTING ACTIVITIES			
Purchase of Property, Plant, Equipment and Intangible Assets	13 & 14	(345,357,080)	(38,576,535)
Net Cash Flows used in Investing Activities		(345,357,080)	(38,576,535)
FINANCING ACTIVITIES			
Development Grants		8,397,080	35,999,999
Decrease in Deposits	13	(37,000,000)	-
Transfers from Special Fund (Deposit)		(8,899,949)	-
Net Cash Flows used in Financing Activities		(37,502,869)	35,999,999
Increase/Decrease of Cash and Cash Equivalents		(329,319,010)	36,763,584
Cash and Cash Equivalents at 1 July 2013	10	390,077,866	353,314,282
Cash and Cash Equivalents at 30 June 2014	10	60,758,856	390,077,866

NOTES TO THE CASHFLOW STATEMENT

The decrease in deposits of KSh.37 m and KSh.8,899,949 involves the transfer made from the Special Fund which was for 10% down payment for purchase of KIPi premise, located at Lavington.

Development Grants

The Institute received KSh.14,250,000 from the Ministry of Industrialization and Enterprise Development for the development expenditure.

The Institute utilized KSh.8,397,080 for the acquisition of assets which is indicated in the Cash Flow Statement as part of the financing activities.

Transfer from Special Fund

The Institute transferred KSh.8,899,949 from the Special Fund to recurrent due to cash flow constraints to be utilized for the payment of the Medical Scheme.

Property, Plant and Equipment

The Institute further transferred KSh.336,655,000 from the Special Fund to acquire office premises in Lavington which forms investing activities as part of the purchase of property, plant, equipment and intangible assets.

Sources of Funds

The surplus of KSh.48,899,755 comprises of the net income generated from the normal operating activities and the development grants of KSh.5,852,920.

XIV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Performance Difference
	KSh.	KSh.	KSh.	KSh.	KSh.
Revenue					
Government Grants and Subsidies	26,000,000	(21,000,000)	5,000,000	5,000,000	-
Rendering of Services	169,301,117	25,698,883	195,000,000	171,486,223	(23,513,777)
Finance Income			-	563,300	-
Other Incomes (ARIPO)	28,860,409	(28,860,409)	-	14,528,591	-
Accrued Income				24,669,283	-
Total Income	224,161,526	(24,161,526)	200,000,000	216,247,397	(23,513,777)
Expenses					
Compensation of Employee	95,151,962	30,748,038	125,900,000	108,560,240	(17,339,760)
Goods and Services	87,717,206	(9,025,563)	74,100,000	59,999,137	(14,100,863)
Other Provisions (Dep)				4,641,185	-
Total Expenditure	182,869,168	21,722,475	200,000,000	173,200,562	(31,440,623)
Surplus for the Period			-	43,046,835	-
Development Grants	19,000,000	-	19,000,000	14,250,000	(4,750,000)

NOTES TO THE STATEMENT OF COMPARISON OF BUDGET AND ACTUAL PERFORMANCE

The total actual performance includes an accrued income of KSh.24,669,283 in respect of fees Receivable from the trade mark renewals. The total expenditure includes the provision in respect of depreciation and amortization on both tangible and intangible assets, respectively.

Rendering of Services

The budgeted collections by the Institute was KSh.195,000,000. However, due to slump in economic activities, the Institute managed to collect only KSh.171,486,223 leading to an under-collection of KSh.23,513,777.

Compensation of Employees

The budgeted staff costs amounted to KSh.95,151,962. This was however revised to KSh.125,900,000 due to anticipated increase in staff house allowances and medical scheme. The Institute eventually spent KSh.108,560,240 thereby realizing a savings of KSh.17,339,760 on staff costs.

Provision of Goods and Services

The Institute budgeted for KSh.87,717,206 to be used on payment of expenses on provision of goods and services which was later revised to KSh.74,100,000 due to budgetary constraints. The Institute eventually utilized KSh.59,999,137 on payment of goods and services leading to an under-expenditure of KSh.14,100,863 which was caused by unanticipated budgetary constraints on budgeted collections. All the reallocations were however done within the budgetary total budgetary allocation and therefore the total budgetary allocation was not surpassed.

Development Grants

The budgeted development grants amounted to KSh.19,000,000 which was to be received from the Ministry of Industrialization and Enterprise Development. However, the actual receipts amount to KSh.14,250,000 leading to an adverse variance of KSh.4,750,000.

XV. NOTES TO THE FINANCIAL STATEMENTS

1. Statement of Compliance and Basis of Preparation

Kenya Industrial Property Institute'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 its functional and reporting currency. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

2. Summary of Significant Accounting Policies

a) Revenue Recognition

i) Revenue from Exchange Transactions

Fees

Kenya Industrial Property Institute 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 entity and the fair value of the asset can be measured reliably.

Interest Income

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

b) Budget Information

The 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 entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

c) Property, Plant and Equipment

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

d) Intangible Assets

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

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

e) Financial Instruments

The Institute did not hold any significant financial instruments during the year under review. There was no investment in form of held-to-maturity instruments that would yield any fixed or determinable receipts during the reporting period.

f) Financial Liabilities

Initial Recognition and Measurement

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

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

g) Inventories

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

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

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

h) Provisions

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

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

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

Contingent Liabilities

The Institute held only one claim payable in form of audit fees amounting to KSh.464,000. The provision has been made in these financial statements for the amount therefore the management is of the opinion that no significant liabilities will arise that may affect the Financial Statements after the reporting date.

Contingent Assets

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

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

i) Nature and Purpose of Reserves

Kenya Industrial Property Institute creates and maintains reserves in terms of specific requirements.

j) Changes in Accounting Policies and Estimates

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

k) Employee Benefits

Retirement Benefit Plans

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

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

l) Foreign Currency Transactions

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

m) Related Parties

The Financial Statements do not include any balances relating to transactions entered into with the third parties. Though the Institute has related parties, there is no significant claims from them that would affect the position of the Institute on crystallization.

n) 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.

o) Comparative Figures

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

p) Significant Judgments and Sources of Estimation Uncertainty

The Institute is required to make judgements and assumptions that would affect the reported amounts of revenues, expenses, assets and liabilities and also the disclosure of contingent liabilities in line with IPSAS 1. The management has no reason to believe that there would be any subsequent events that would significantly affect the values of the revenues, expenses, assets and liabilities after the financial statements report and therefore such estimates and assumptions were not made at the reporting date as there were no significant risks that would have caused any material adjustment to the carrying amounts of the assets and liabilities within the next financial year performance.

q) Government Grants

Recurrent Grants

Recurrent grants from the Government are accounted for under the Income approach where they are recognized as income over the period necessary to match them with the related assets which they are intended to compensate on a systematic basis. During the period under review the Board received KSh.5,000,000 recurrent Government grants from the Ministry of Industrialization and Enterprise Development.

Development Grants

The Institute received KSh.14,250,000 from the Ministry of Industrialization and Enterprise Development to be utilized for the purpose of development expenditure.

r) Subsequent Events

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

s) Risks

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

- Operational risks – these are risks of loss as result of system failure, human error and fraud.

The controls that the Management has put in place to contain these include;

- Staff training
 - Authorization level
 - Periodic risk assessment
 - Duty rotations and segregation
 - Internal audit
- Liquidity risk –these risks relate to inability to realize sufficient cash to meet commitments. To address this risk, the Management has adopted a more prudent management of its cash flows. Investment of surplus cash in low risk Government securities has also been a policy of the management.

3. Revenue From Transactions

	2013/2014	2012/2013
	KSh.	KSh.
Revenue from Exchange Transactions		
Operating Income	196,155,506	162,415,661
Revenue from Non-Exchange Transactions		
GOK Grants - Recurrent	5,000,000	7,750,000
GOK Grants - Development	5,852,920	-
Total Revenue from Transactions	207,008,426	170,165,661

The operating income consists of the fees received in respect of trademarks and patents which form the core activities of the Institute. Grants from the Government was received for the purpose of meeting the recurrent expenditure and was recognised as income during the period under review.

4. Other Incomes

	2013/14	2012/13
	KSh.	KSh.
Other Incomes		
ARIPO	14,528,591	
Other Incomes (Interests)	563,300	10,442,836
Total Other Incomes	15,091,891	10,442,836

The Institute earns some fees from the Madrid Agreement and the actual receipts from the African Regional Property Office (ARIPO) amounted to KSh.14,528,591 during the year which is treated by the Institute as Other Operating Income.

Interest Income is the interest earned during the year on the balances on deposits at the bank.

5. Employee Costs

	2013/14	2012/13
	KSh.	KSh.
Employee Related Costs - Salaries & Wages	90,044,189	82,539,312
Employee Related Costs - Contributions to Pension & Medical Aids	18,516,051	16,386,464
Total Employee Costs	108,560,240	98,925,776

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

6. Hospitality Costs

	2013/14	2012/13
	KSh.	KSh.
Hospitality, Supplies and Services	10,434,807	6,003,537
Board Expenses	5,001,379	6,512,145
Total Hospitality Costs	15,436,186	12,515,682

The above costs under hospitality consist of the Board expenses amounting to KSh.5,001,379 while the difference relates to costs incurred on seminars, workshops and provision of staff tea.

7. Depreciation and Amortization Expenses

	2013/14	2012/13
	KSh.	KSh.
Property, Plant & Equipment	4,402,685	3,202,826
Intangible Assets	238,500	210,000
Total Depreciation and Amortization	4,641,185	3,412,826

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

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

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

8. Repairs and Maintenance

	2013/14	2012/13
	KSh.	KSh.
Vehicles	4,903,327	1,022,946
Other Assets	3,190,319	6,564,053
Total Repairs and Maintenance	8,093,646	7,586,999

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

9. General Expenses

The following are included in General Expenses

	2013/14	2012/13
	KSh.	KSh.
Utilities Supplies & Service - Water & Electricity	125,845	102,959
Telecommunication, Supplies & Services	1,735,934	802,706
Travel & Subsistence, & Other Transportation Costs	6,468,154	4,805,358
Printing, Advertising & Information Supplies & Services	6,328,611	4,047,443
Skills Development & Training	4,065,203	2,124,108
Audit Fees	464,000	400,000
Specialized Materials & Supplies	860,221	322,880
Office & General Supplies & Services	8,723,041	2,872,142
Contracted/Legal	6,063,573	1,391,250
Bank Charges	998,620	519,036
Administration/Subscriptions	636,104	267,362
Total General Expenses	36,469,305	17,655,244

These are various expenditure incurred by the Institute for the purpose of facilitating various Functions that are geared towards attainment of the objectives of the Institute.

10. Cash and Cash Equivalents

	2013/14	2012/13
	KSh.	KSh.
Bank	59,853,119	389,520,483
Cash on Hand	905,737	557,383
Total Cash & Cash Equivalents	60,758,856	390,077,866

The Cash and Cash Equivalents consist of the bank and cash balance in the three accounts held by the Institute at the Kenya Commercial Bank, Kipande House.

11. Receivables

	2013/14	2012/13
	KSh.	KSh.
Current Receivables		
WIPO	30,870,000	55,223,788
ARIPO	569,599	5,200,533
Staff Advances	152,000	33,328
Other Receivables (Renewal Fees Due)	35,884,163	11,214,880
Total Receivables	67,475,762	71,672,529

These are amounts due from World Intellectual Property Office and African Regional Intellectual Property Office in respect of the Institute's share of the fees collected from the Intellectual Property assets as per the Madrid Agreement. The staff advances consists of salary advances made by the Institute towards emergency financial needs of the various staff members during the period under Review.

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

12. Inventories

	2013/14	2012/13
	KSh.	KSh.
Consumable Stores	5,032,430	4,353,877
Library	3,985,828	3,453,613
Total Inventories at the Lower of Cost & Net Realizable Value	9,018,258	7,807,490

The inventories consists of the stock of consumable items held in the Institute's stores during the Financial Year end and the stock of various reference books held at the Institute's Library. It is the Institute's policy not to charge wear and tear on the Library books.

13. Property, Plant and Equipment

	Land & Buildings KSh.	Motor Vehicles KSh.	Computers KSh.	Furniture & Equipment KSh.	Total KSh.
Cost					
As at a July 2012		16,681,306	15,447,753	21,212,795	53,341,854
Additions	37,471,250		760,470	344,815	38,576,535
As at 30 June 2013	37,471,250	16,681,306	16,208,223	21,557,610	91,918,389
Depreciation & Impairment					
As at a July 2012	-	14,397,668	11,933,799	10,760,900	37,092,367
Depreciation & Impairment		570,910	1,282,327	1,349,589	3,202,826
As at 30 June, 2013	-	14,968,578	13,216,126	12,110,489	40,295,193
NET BOOK VALUE					
As at 30 June 2013	37,471,250	1,712,728	2,992,097	9,447,121	51,623,196
As at 1 June 2012	-	2,283,638	3,513,954	10,451,895	16,249,487
Cost					
As at 1 July 2013	37,471,250	16,681,306	16,208,223	21,557,610	91,918,389
Additions	336,655,000	-	4,836,281	3,560,799	345,052,080
Transfer/Adjustment	-	-	-	-	-
	374,126,250	16,681,306	21,044,504	25,118,409	436,970,469
Depreciation					
As at 1 July 2013	-	14,968,578	13,216,126	12,110,489	40,295,193
Charge for the Year		428,182	2,348,513	1,625,990	4,402,685
	-	15,396,760	15,564,639	13,736,479	44,697,878
NET BOOK VALUE					
As at 30 June, 2014	374,126,250	1,284,546	5,479,865	11,381,930	392,272,591
As at 30 June, 2013	37,471,250	1,712,728	2,992,097	9,447,121	51,623,196

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

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

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

14. Intangible Assets – Software

		TOTAL
	KSh.	KSh.
Cost		
At 1 July 2012	1,000,000	1,000,000
	1,000,000	1,000,000
Amortisation		
As at 1st July 2012	300,000	
Charge for the Year	210,000	-
	510,000	510,000
NET BOOK VALUE		
As at 30 June 2013	490,000	490,000
As at 30 June 2012	700,000	700,000
Cost		
As at 1st July 2013	1,000,000	
Additions	305,000	
	1,305,000	1,305,000
Amortisation		
As at 1st July 2013	510,000	
Charge for the Year	238,500	
	748,500	
As at 30 June 2014	556,500	556,500
As at 30 June 2013	490,000	490,000

The intangible assets comprises of the cost incurred for the purpose of the software development. It is the Institute's policy to charge amortization on such software costs at the rate of 30% on reducing balance Method.

15. Trade and Other Payables

	2013/14	2012/13
	KSh.	KSh.
Trade Payables	464,000	3,450,000
Total Trade and Other Payables	464,000	3,450,000

This consists of the provision made in respect to the amount owed to the Kenya National Audit Office in respect of audit fees.

16. Reserves

	2013/14	2012/13
	KSh.	KSh.
Special Fund	63,969,698	190,640,445
Capital Reserve	416,748,514	71,696,434
Accumulated Surplus	48,899,755	255,884,202
Total Reserves	529,617,967	518,221,081

Reserves comprise of the accumulated balances in respect of Special Fund set up by the Institute and the accumulated surplus from operating activities.

17. Accumulated Surplus

	2013/14	2012/13
	KSh.	KSh.
Total Income for the Year	222,100,317	179,608,497
Less: Total Expenditure for the Year	173,200,562	140,096,527
Accumulated Surplus	48,899,755	39,511,970

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

18. Cash Generated from Operations

	2013/14	2012/13
	KSh.	KSh.
Surplus for the Year Before Tax	48,899,755	39,511,970
Adjusted for:		
Transfer to Deposits	(8,899,949)	
Depreciation	4,402,685	3,412,826
Impairment	238,500	-
Other Collections from Non-Operating Activities	-	3,098,063
Working Capital Adjustments:		
Increase in Inventory	(1,210,768)	(1,477,491)
Increase in Receivables	4,196,767	(5,605,248)
Increase in Payables	(2,986,000)	400,000
Net Cash Flow From Operating Activities	44,640,990	39,340,120

The surplus for the year amounting to KSh.48,899,755 includes an amount of KSh.43,046,835 from the normal operating activities and KSh.5,852,920 from the development grants received from the Ministry.