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REPORT

OF

THE AUDITOR-GENERAL

ON

SCRAP METAL COUNCIL

**FOR THE YEAR ENDED
30 JUNE, 2022**

THE NATIONAL ASSEMBLY

DATE: 19 APR 2023

19 APR 2023

DAY: WEDNESDAY

DEPUTY MAJORITY LEADER

TABLED
BY
SPEAKER AT
THE TABLE



ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING
30TH JUNE 2022

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

Scrap Metal Council
Annual Report and Financial Statements
For the year ended June 30, 2022.

Scrap Metal Council
Annual Report and Financial Statements
For the year ended June 30, 2022.

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1. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

The Scrap Metal Council (SMC) is a State Corporation established under the Scrap Metal Act No. 1 of 2015 to regulate Scrap Metal dealings in the country.

The Cabinet Secretary, through gazette notice Number 9851 of 17th October 2019 appointed the Chairman of the Council of the Scrap Metal Council while, through Kenya Gazette Notice No. 3442 of 10th April 2018, appointed members of the Council.

Despite the appointment of the Council members in 2018, the Council did not start its activities until May 2020 when it was inaugurated. The Council was supported by the Directorate of Engineering and Construction from the State Department for Industrialization until April 2021 when basic staff was deployed to the Secretariat of the Council as provided for in the Act.

(b) Principal Activities

The principal activity (mandate) of the Council is to regulate dealings in scrap metal.

The vision

A premier regulator for scrap metal dealing within the region and beyond.

The Mission

To provide a safe and facilitative regulatory environment while looking for best practices and current industry standards for sustainable scrap metal trade and recycling for economic growth.

Core values

- i. Integrity – we are honest, impartial and trustworthy at all times with our colleagues, our customers and all stakeholders in delivering licensing councils in a fair manner and free of discrimination or preferential treatment
- ii. Professionalism – we value our work, deliver as a team, act in a reliable manner that depicts our collective expertise and competencies, and we take pride in our accomplishments.
- iii. Accountability - we remain accountable to our stakeholders, exercise prudence in managing resource entrusted to us, always acknowledge responsibility for our actions and act in a transparent manner
- iv. Customer-focused – we value and cultivate lasting relationships with our customers, and are committed to continuously meet their needs and exceed expectations in delivering licensing councils

The functions of the of the SMC are to advice the Cabinet Secretary on-

- (i) The appropriate measures and mechanisms for regulating the scrap metal industry in ensuring economic growth, protection of public health and conformity to the environmental stewardship as required by the Basel Convention;

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- (ii) The appropriate measures and mechanisms for protecting public interest against vandalism, theft of utility infrastructure and private property;
- (iii) The methods of attracting investors on the utilization of excess scrap materials and supporting existing users of scrap metal;
- (iv) The applicable license fees to be prescribed under the scrap metal Act; and
- (v) Any other matter relevant to the operations of the Act

(c) Key Management

The Scrap Metal Council's day-to-day management is under the Council Secretariat headed by the Head of Secretariat.

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2022 and who had direct fiduciary responsibility were:

| No. | Designation | Name |
|-----|---------------------------------|-------------------------|
| 1. | Head of Secretariat | George Makateto |
| 2. | Head of Planning | Francis T. Chege |
| 3. | Head of Technical Services | Benson Waweru |
| 4. | Head of Accounts | Jecinter Obondi |
| 5. | Head of Supply Chain Management | Paul Otieno |
| 6. | Head of Human Resource | Lucy Nyambura |
| 7. | Head of ICT | Edith Ndung'u |
| 8. | Head of Finance | David Kiptoo |

(e) FIDUCIARY OVERSIGHT ARRANGEMENTS

The Council has put in place measures to enforce fiduciary and oversight arrangements to ensure compliance i.e., the Council has 3 key committees:

1. Finance and Human Resource Committee,
2. Audit and Governance Committee, and;
3. Technical Committee.

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These committees provide policy direction and oversight to the Council management. The main objective of the audit and governance is to assist the Board in discharging its duties in relation to operation of adequate systems, control processes and preparation of accurate financial reporting statements in compliance with all applicable legal requirements and accounting standards.

Council's Committees Composition

i. Finance and Human Resource

| NO. | NAME | POSITION | No. of Meetings Held |
|------------|---------------------|-----------------|-----------------------------|
| 1 | Bobby Aaron Johnson | Chairperson | 2 |
| 2. | Stephen Macharia | Member | 1 |
| 3. | Stella Mucheke | Member | 2 |
| 4. | Michael Muchiri | Member | 2 |

ii. Audit and Governance

| NO. | NAME | POSITION | No. of Meetings Held |
|------------|---------------|-----------------|-----------------------------|
| 1 | John Gathatwa | Chairperson | 2 |
| 2. | Shezad Fazal | Member | 1 |
| 3. | Sarah Duncan | Member | 2 |
| 4. | Joseph Mbeva | Member | 1 |

iii. Technical Committee

| NO. | NAME | POSITION | No. of Meetings Held |
|------------|----------------------|-----------------|-----------------------------|
| 1 | Stephen Mutoro | Chairperson | 2 |
| 2. | Sarah Duncan | Member | 2 |
| 4. | John Kabiru Gathatwa | Member | 1 |
| 5. | Joseph Mbeva | Member | 1 |
| 6. | Stella Mucheke | Member | 2 |

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(f) SMC Headquarters

23rd Floor

NSSF Building Block A

Bishop Road

Nairobi, KENYA

(g) Entity Contacts

P.O. Box 30547 - 00100

Nairobi, KENYA

Telephone: (254) 0114862446

Website: www.scrapmetalcouncil.go.ke

E-mail: info@scrapmetalcouncil.go.ke

Twitter: [@ScrapMetalC_ke](https://twitter.com/ScrapMetalC_ke)

(h) Entity Banker

1. Kenya Commercial Bank

Milimani Branch

Bishop Road

NSSF Building

(i) Independent Auditors

Auditor-General

Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084

GPO 00100

Nairobi, Kenya

(j) Principal Legal Adviser

The Attorney General

State Law Office and Department of Justice

Harambee Avenue

P.O. Box 40112

City Square 00200

Nairobi, Kenya

2. THE BOARD OF DIRECTORS

| Ref | Directors | Details |
|-----|---|--|
| 1. |  Hon. Gakure Monyo Chairman | Date of Birth: 14/09/1967 Key Qualification: Economic Administration & Financial Management Work Experience: Financial Manager Independent or Executive Director: Independent Committee: None Independent or Alternate: Independent |
| 2. |  Aaron Johnson Bobby | Date of Birth: 30/9/1970 Key Qualification: BSc Work Experience: Science & Management Independent or Executive Director: Independent Committee: Finance & Human Resource Independent or Alternate: Independent |
| 3. |  Shezad Jalanvin Fazal | Date of Birth: 24/2/1973 Key Qualification: Business Administration Work Experience: Business Independent or Executive Director: Independent Committee: Audit & Governance Independent or Alternate: Independent |
| 4. |  Stephen Irungu Macharia | Date of Birth: 1/12/1967 Key Qualification: Artisan Work Experience: Scrap Metal Works Independent or Executive Director: Independent Committee: Finance & Human Resource Committee Independent or Alternate: Independent |
| 5. |  Sarah Wanjiku Duncan | Date of Birth: 11/11/1966 Key Qualification: Peace and Conflict Work Experience: Conflict Resolution Independent or Executive Director: Independent Committee: Technical Committee, Audit & Governance Committee Independent or Alternate: Alternate |

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| | | |
|-----|---|--|
| 6. |  Michael Muchiri | <p>Date of Birth: 1965 Key Qualification: Engineer Work Experience: Superintending Engineer, both private and public sector Independent or Executive Director: Independent Committee: Finance & Human Resource Committee Independent or Alternate: Alternate</p> |
| 7. |  Stephen Mutoro | <p>Date of Birth: 1975 Key Qualification: Sociology Work Experience: Criminology, Social Gender Independent or Executive Director: Independent Committee: Technical Committee Independent or Alternate: Independent</p> |
| 8. |  John Kabiru Gathatwa | <p>Date of Birth: 22/12/1965 Key Qualification: International Customs Law & Administration Work Experience: Customs Laws and Administration Independent or Executive Director: Independent Committee: Technical Committee, Audit & Governance Independent or Alternate: Alternate</p> |
| 9. |  Joseph Mbeva | <p>Date of Birth: 02/09/1966 Key Qualification: Masters of Intellectual Property (MSc) Work Experience: Director of Industries, Directorate of Industrialization Field Services, State Department for Industrialization. (SDI) Independent or Executive Director: Independent Committee: Technical Committee, Finance and Human Resource, Audit & Governance Independent or Alternate: Alternate to PS, SDI</p> |
| 10. |  Stella Mucheke | <p>Date of Birth: 20/10/1978 Key Qualification: MBA Operations Management Work Experience: Chief Supply Chain Specialist Independent or Executive Director: Independent Committee: Finance and HR, Technical Committee, Independent or Alternate: Alternate</p> |

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| | | |
|-----|---|---|
| 11. |  George Makateto | <p>Date of Birth: 3rd March 1970</p> <p>Key Qualification: Mphil in Tech Ed- Automotive Engineering, MIET</p> <p>Work Experience: Director of Industries, Engineering and Construction Directorate, State Department for Industrialization (SDI)</p> <p>Committee: Technical Committee, Finance and Human Resource</p> <p>Independent or Alternate: Head of Council Secretariat</p> |
|-----|---|---|

NOTE:



- i) **Robert Kung'u** was the Alternate to PS SDI until February 2022 when he was replaced by **Joseph Mbeva**
- ii) **Johnson Wambugu** was a Council Member Alternate to PS Transport until he was replaced by **Michael Muchiri** in November 2021
- iii) **Simiyu Wabwile** was the head of Secretariat until February 2022 when he was replaced by **George Makateto**.

3. MANAGEMENT TEAM

| | Management | Details |
|----|---|--|
| 1. |  | <p>George Makateto Head of Secretariat responsible for day to day running of the Scrap Metal Council Secretariat Qualification: Mphil in Tech Ed- Automotive Engineering, MIET</p> |
| 2. |  | <p>Francis T. Chege. Head of Planning responsible for Corporate Strategy Qualification: BA English – Econ, Post graduate in Development Education</p> |
| 3. |  | <p>Benson Waweru Head of Technical Services Responsible for Core Functions Qualification: Bsc- Biology, Diploma in Economics Development.</p> |
| 4. |  | <p>Jecinter Obondi. Head of Accounts. Responsible for Accounts matters Qualification: Bcom- Finance, CPAK</p> |
| 5. |  | <p>Paul Otieno Head of Supply Chain Management Responsible for Procurement matters Qualification: BAdmin, Advanced Diploma CIPS, Diploma in Computer Science</p> |
| 6. |  | <p>Lucy Nyambura Head of Human Resource Management Responsible for Human Resource Management Qualification: Higher Diploma in Human Resource, Diploma in counselling.</p> |

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| | | |
|----|---|---|
| 7. |  | <p>Edith Ndung'u Head of Information, Communication and Technology Responsible for ICT Issues Qualification: Higher Diploma in Computer Science, CEH, CCNA,CCNP</p> |
| 8. |  | <p>David Kiptoo Head of Finance Responsible for finance issues Qualification: Bcom- Finance, CPA finalist</p> |

NOTE:

- i) **Jane Kinyanjui** was the Head of Supply Chain Management until replaced by **Paul Otieno**
- ii) The Heads of **Technical Services, Human Resource Management, ICT and Finance** were deployed to the Secretariat in May 2022 from SDI

4. CHAIRMAN'S STATEMENT

During recent decades, an increasingly expanding global economy has led to concerns over the exploitation of the earth's natural resources, about the environmental impacts as well as about impending resource shortages. The promotion of circular material use, including not least recycling and reuse, are viewed as necessary in order to reduce the generation of waste and the economy's dependency on the extraction of primary (virgin) raw materials. Recycling of materials may save resources and energy and delay the depletion of virgin natural resources.

In the metals industry, secondary (i.e., recycled) materials compete with primary materials, which depend on the extraction of non-renewable resources. Scrap materials, or secondary metals in processed form, can sometimes be relatively cheap to produce compared to primary materials, at least in the cases where the scrap collection costs are not excessively high. Moreover, as mining enterprises must resort to lower-grade, and more remote, mineral deposits, the costs of primary (virgin) material production may increase over time, therefore further improving the competitiveness of secondary metal production.

It is against this background that scrap metal gains economic prominence to the country and prompts regulation to streamline dealings in this resource. In view of this, the Scrap Metal Council was formed following the enactment of the Scrap Metal Act, No. 1 of 2015 to regulate the scrap metal dealings. The function of the Council is to advise the Cabinet Secretary primarily on;

1. The appropriate measure and mechanisms that shall be put in place for regulating the scrap metal industry and ensuring that there is economic growth, protection of public health and conformity to the principles of environmental stewardship as required by the Basel convention;
2. The appropriate measure and mechanisms for protecting public interest against vandalism, theft of utility infrastructure and private property;
3. The most effective methods of attracting investors into the milling/ recycling industry by supporting the existing users;
4. The most appropriate applicable licensing fees to be fees to be prescribed under this Act; and
5. Any other matter relevant to the smooth operation of the Scrap Metal Act, 2015.

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Section 3(i) of the Act established the Scrap Metal Council as a corporate body. The Council consists of members as appointed by the Cabinet Secretary under Section 4(i) and these members represent various stakeholders in the industry whose term is three (3) years.

The specific composition of the Council is;

1. A Chairperson appointed by the Cabinet Secretary from the Public or private sector
2. The Principal Secretary of the Ministry for the time being responsible for matters relating to transport or representative;
3. The Commissioner General of the Kenya Revenue Authority or a representative;
4. The Inspector-General of Police or a representative;
5. The Principal Secretary of the Ministry for the time being responsible for matters relating to Industrialisation or a representative;
6. One person nominated by the Scrap Metal Dealers Association;
7. One person nominated by the metal cottage industry;
8. One person nominated by the Kenya Association of Manufacturers;
9. One person nominated by large utility companies or agencies in charge of infrastructure, to be appointed on rotational basis;
10. One person nominated by the Consumer Federation of Kenya;

The Council performs its functions through a Secretariat provided by the State Department for Industrialization.

Since the inauguration of the Council on 21st May 2020, it has carried out a number of activities namely;

- a. Induction of the Council,
- b. Training on Mwongozo
- c. Opening of a bank account
- d. Licensing of large number of dealers
- e. Inspection of the licensed dealers
- f. Development of an online application system
- g. Started the process of developing instruments for full operationalization of Council such as :
 - i. Categorization of Scrap Metal Council

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- ii. Drafting of the Vision, Mission Core Values and Citizen Service Delivery Charter
- iii. Developing Strategic Plan 2022-2027
- iv. Signing of the first ever Performance contract with the Public Service through the Ministry of Industrialization, Trade and Enterprise Development
- v. Training of staff and council members on PC cross-cutting issues.
- vi. Initiated development of Scrap Metal Regulations
- vii. Initiated Amendment of Scrap Metal Act 2015
- viii. Carried out Sensitization of Scrap Metal traders in the Counties

Despite the above achievements, the Council is faced with a number of challenges namely;

- (i) Inadequate finances to implement the mandate activities.
- (ii) Restrictive law pertaining the practical implementation of the mandate

Name Shehad Patel.

Sign: 

 Chairperson of the Board/Council

5. REPORT OF THE HEAD OF SECRETARIAT

The Scrap Metal Council was formed following the enactment of the Scrap Metal Act, No. 1 of 2015. The primary function of the Council is to advise the Cabinet Secretary. It is responsible for offering advice to the Cabinet Secretary on;

1. The appropriate measure and mechanisms that shall be put in place for regulating the scrap metal industry and ensuring that there is economic growth, protection of public health and conformity to the principles of environmental stewardship as required by the Basel convention;
2. The appropriate measure and mechanisms for protecting public interest against vandalism, theft of utility infrastructure and private property;
3. The most effective methods of attracting investors into the milling/ recycling industry by supporting the existing users;
4. The most appropriate applicable licensing fees to be fees to be prescribed under this Act; and
5. Any other matter relevant to the smooth operation of the Scrap Metal Act, 2015.

The Council performs its functions through a Secretariat provided by the State Department for Industrialization. The secretariat comprises of 8 staff members deployed from the state department whose details are;

1. Head of Secretariat,
2. Head of Planning
3. Head of Technical Services,
4. Head of Accounts,
5. Head of Supply Chain Management
6. Head of Human Resource Management
7. Head of ICT
8. Head of Finance

After inauguration of the Council, there were few activities due to the COVID-19 protocols. As a requirement by the State Corporations' Advisory Committee, the first activity for the Council was induction which took place from 28th September to 2nd October 2020. During this induction training, the Council was able to hold its first full Council meeting where the Council focused on putting structures in place to operationalise the Council.

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The following activities were planned and included in the Council's work plan which was approved by the finance and human resource committee:

- a) Opening of the Council account; this activity was done and the Council is now able to collect Appropriation in Aid (A.I.A) through licensing of the dealers which is payable directly to the Scrap Metal Council account.
- b) As one of the key activities towards regulation of the scrap metal trade, the Council licensed twenty-eight (100) dealers.
- c) To make the process of licensing more transparent, the Council has developed an online application system to be used in licensing and all licenses are issued online. The Council has mapped out all dealers with the assistance of data from the National Police Service.
- d) The Council members conducted a familiarization tour of the dealers and a smelter in Nairobi. From 13th to 16th December 2020, the Council was trained on Mwongozo in KSG Mombasa. Six (6) members were trained and the other 4 will be trained at the next available cohort.
- e) The Council has formed an adhoc committee to lead the process of developing regulations to the Scrap Metal Act and conjunction with the directorates of the state Department for Industrialization is developing tools and instruments for operationalization of the Council such as Strategic Plan. It has also created its identity (Logo)

Despite the above achievements, the Council is faced with a number of challenges namely;

- i. Inadequate finances to implement the mandate activities.
- ii. Restrictive law pertaining the practical implementation of the mandate

Name

George Makatefu

Sign:



Head of Secretariat

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**6. STATEMENT OF SCRAP METAL COUNCIL'S PERFORMANCE AGAINST
PREDETERMINED OBJECTIVES FOR FY 2021/2022**

(i) Scrap Metal Council (SMC) Performance Review

The Scrap Metal Council is established under the Scrap Metal Act mandated to control and regulate the dealing in scrap metal business, and for any other purposes connected therewith. Scrap metal dealings include old metal, second-hand metal, broken metal, defaced or old metal goods (including machinery and plant)

The Council began its operations November 2020 but the term of the Council members expired in March 2021 without having signed performance contracts. However below the key performance indicators are for the time the council was in the office.

Performance in the Year 2021/2022

| Programmes /Projects | Objectives | Expected outcomes/Output | Performance Indicator | Implementing Agency | Timeframe | Current Status Achievement Level |
|-----------------------|---|---|---|---------------------|-----------------------|--|
| Scrap Metal programme | To control and regulate the dealing in scrap metal business | Increased compliance of dealers | No of Licences issued | SMC | 1/7/2021 to 30/6/2022 | 100 licenses issued |
| | | Scrap Metal Regulations | Regulations developed | SMC | 1/7/2021 to 30/6/2022 | 1 regulation developed |
| | | Automation of the application and licensing process | Automation systems installed | SMC | 1/7/2021 to 30/6/2022 | Automation systems in place |
| | To operationalize the scrap metal council | Operationalized Council | % Level of operationalization of the scrap metal council: <ul style="list-style-type: none"> • Staff secondment • office space • Induction of Council • Preparation of operations procedures | SMC SDI | 1/7/2021 to 30/6/2022 | 40% operationalized in terms of staff secondment |

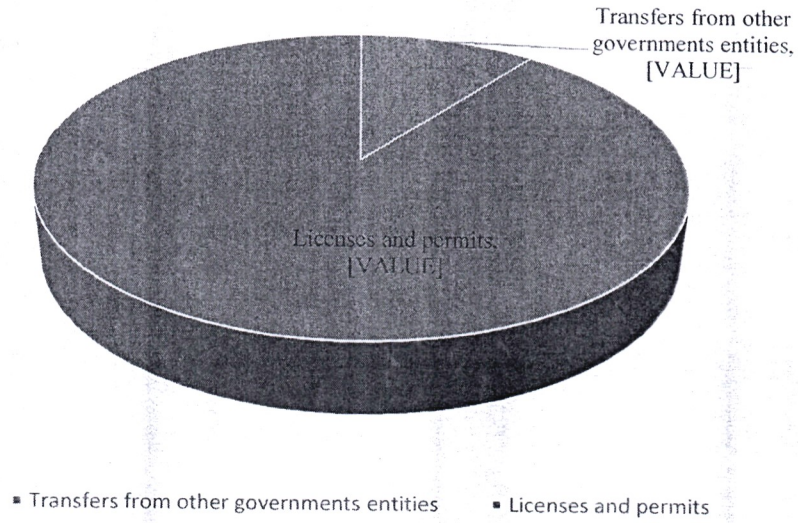
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| Programmes /Projects | Objectives | Expected outcomes/Output | Performance Indicator | Implementing Agency | Timeframe | Current Status Achievement Level |
|--|---|--|---|---------------------|-----------------------|--|
| | | | and Manuals | | | |
| Advisory services to the cabinet secretary | To advise the Cabinet Secretary on matters of regulating the scrap metal dealings | Appropriate measures and mechanisms for regulating the scrap metal industry instituted | No. of technical briefs reports to the Cabinet Secretary | SMC | 1/7/2021 to 30/6/2022 | Prepared 3 technical briefs to the Cabinet Secretary |
| | | | Level of inspection to scrap metal dealer to control movement of hazardous material | SMC KRA | 1/7/2021 to 30/6/2022 | 100% compliance on the restriction of hazardous materials into the country |
| | | | No. of awareness programmes to control vandalism, theft of utility infrastructure and private property on scrap metal | SMC NPS | 1/7/2021 to 30/6/2022 | 4 sensitization workshop for the scrap metal dealers in Nairobi |

The Revenue collected throughout the period is plotted as below:

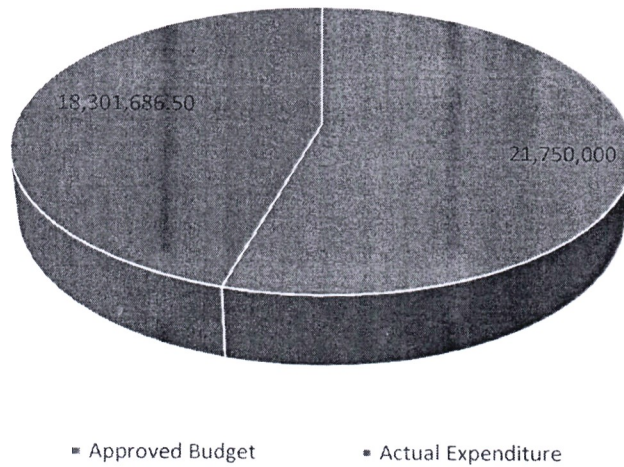
Revenue from non-exchange transactions



Source: SMC computation

In terms of Budget Allocated and Actual Expenditure for the Council for the period

Approved Budget Vs Actual Expenditure



Source: SMC computation

7. 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 Scrap Metal Council is responsible for the governance role of the Council. Both the Council and senior management of the Council are committed to the highest levels of corporate governance, which it considers critical in achieving the Council's mandate. Accordingly, the Council therefore fosters a culture that values and rewards the highest ethical standards and personal and corporate integrity.

The Council recognises that for governance to be effective it must be realised through leadership and collaboration with the council members at the top leading by example and complementing the senior management. These enables effective and efficient decision making and discharge of duties.

The Role and functioning of the Council

The Council'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 Council is set out in the Scrap Metal Act No. 1 of 2015 that establishes the Council as a State Corporation. Specifically, the Council defines 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.

Council members bring a wealth of experience and knowledge to the Council's deliberations. Except for direction and guidance on general policy, the Council delegates authority of its day-to-day activities to the management through the Head of Secretariat. The Council nonetheless is responsible for the overall stewardship of the council and assumes responsibility for effective direction and control.

Composition of the Council

The Council is as stipulated in the Scrap Metal Act. The Council comprises Ten (10) members. Five (5) of the members are independent non-executive including the Chairman from industry stakeholders other than the chairman who is appointed by the Cabinet Secretary. All non-executive Council members retire after a term of three (3) years from the date of appointment and are eligible for re-appointment, the remaining five (5) members are institutional representatives bringing on Board closely-knit interests, experiences and balance from and by key stakeholders.

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The Head of Secretariat is the Secretary to the Council and works closely with other members of the Secretariat deployed from the State Department for Industrialization. The oversight role of the secretariat is to provide strategic direction for the council. Specifically, the council is responsible for;

- i. Determining the council's Mission, Vision, Purpose and Core Values
- ii. Reviewing, evaluating and approving on regular basis, long terms plans for the council
- iii. Reviewing, evaluating and approving the council's budget and financial forecasts
- iv. Reviewing, evaluating and approving major resources allocations and capital investments
- v. Ensuring that the procurement process is cost effective and delivers value for money
- vi. Reviewing and approving the operating and financial results of the council
- vii. Ensuring effective, accurate, timely and transparent disclosures of pertinent information on the organization's operations and performance
- viii. Ensuring that effective processes and controls are in place
- ix. Reviewing, evaluating and approving overall organization's structure, the
- x. assignment of senior management responsibilities and plans for
- xi. Senior management development and succession
- xii. Reviewing, evaluating and approving the remuneration structure of the organization
- xiii. Adopting, implementing and monitoring compliance with organization's Code of Conduct and Ethics
- xiv. Reviewing on quarterly basis the attainment of the targets and objectives set out in agreed performance measurement with the GOK
- xv. Reviewing periodically the organization's strategic objectives, and policies relating to sustainability and social responsibility/investment
- xvi. Enhancing council's public image and ensure engagement with stakeholders through effective communication
- xvii. Monitoring compliance with the Constitution, and applicable laws, regulations and standards
- xviii. Reviewing, monitoring and ensuring that the organization is effectively and consistently delivering on its mandate

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Council Meetings

The Council schedule of meetings is prepared annually in advance. The Council 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 Council held four (4) regular and four (4) special meetings.

Committees of the Council

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

a) Audit and Risk Management Committee

The Committee assists the Council 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.

The members of this committee are;

1. John Gathatwa,
2. Shezad Fazal,
3. Sarah Duncan,
4. Stephen Mutoro
5. Joseph Mbeva

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 three (3) regular and two (2) special meetings and in the year under review.

The members of this committee are;

1. Bobby Aaron Johnson,
2. Stella Mucheke,
3. Stephen Macharia,

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4. Michael Muchiri
5. Joseph Mbeva

c) Technical committee

The committee is responsible for overseeing the licensing and inspection activities of the Council.

The members of this committee are;

1. Sarah Duncan,
2. Stella Mucheke,
3. John Gathatwa,
4. Stephen Mutoro
5. Joseph Mbeva

Performance Contract

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

Conflict of Interest

Council Members 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. A register is maintained for this purpose.

Directors Emoluments

Council Members 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 members during the financial year for services rendered are disclosed in the accounts.

Scrap Metal Council

Annual Report and Financial Statements for the year ended June 30, 2022.

Board Induction and Training

After the inauguration of the council, the council was inducted for four days from 28th to 1st October 2020 while a Mwongozo training was organised from 14th to 16th December 2020.

Management Committee

It is responsible for executing and implementing strategies adopted by the council to ensure optimal performance of the council. The Head of the Secretariat provides the pivot link between the management and the council. The management committee comprises of:

1. George Makateto
2. Francis T. Chege,
3. Jecinter Obondi,
4. Benson Waweru
5. Paul Otieno
6. Lucy Nyambura
7. Edith Ndung'u
8. David Kiptoo.

Scrap Metal Council

Annual Report and Financial Statements for the year ended June 30, 2022.

The following activities were planned and included in the Council's work plan which was approved by the finance and human resource committee:

- a) Opening of the Council account; this activity was done and the Council is now able to collect Appropriation in Aid (A.I.A) through licensing of the dealers which is payable directly to the Scrap Metal Council account.
- b) As one of the key activities towards regulation of the scrap metal trade, the Council licensed twenty-eight (100) dealers.
- c) To make the process of licensing more transparent, the Council has developed an online application system to be used in licensing and all licenses are issued online. The Council has mapped out all dealers with the assistance of data from the National Police Service.
- d) The Council members conducted a familiarization tour of the dealers and a smelter in Nairobi. From 13th to 16th December 2020, the Council was trained on Mwongozo in KSG Mombasa. Six (6) members were trained and the other 4 will be trained at the next available cohort.
- e) The Council has formed an adhoc committee to lead the process of developing regulations to the Scrap Metal Act and conjunction with the directorates of the state Department for Industrialization is developing tools and instruments for operationalization of the Council such as Strategic Plan. It has also created its identity (Logo)

Despite the above achievements, the Council is faced with a number of challenges namely;

- i. Inadequate finances to implement the mandate activities.
- ii. Restrictive law pertaining the practical implementation of the mandate

Name

George Takateto

Sign:



Head of Secretariat

Scrap Metal Council

Annual Report and Financial Statements for the year ended June 30, 2022.

**6. STATEMENT OF SCRAP METAL COUNCIL'S PERFORMANCE AGAINST
PREDETERMINED OBJECTIVES FOR FY 2021/2022**

(i) Scrap Metal Council (SMC) Performance Review

The Scrap Metal Council is established under the Scrap Metal Act mandated to control and regulate the dealing in scrap metal business, and for any other purposes connected therewith. Scrap metal dealings include old metal, second-hand metal, broken metal, defaced or old metal goods (including machinery and plant)

The Council began its operations November 2020 but the term of the Council members expired in March 2021 without having signed performance contracts. However below the key performance indicators are for the time the council was in the office.

Performance in the Year 2021/2022

| Programmes /Projects | Objectives | Expected outcomes/Output | Performance Indicator | Implementing Agency | Timeframe | Current Status Achievement Level |
|-----------------------|---|---|---|---------------------|-----------------------|--|
| Scrap Metal programme | To control and regulate the dealing in scrap metal business | Increased compliance of dealers | No of Licences issued | SMC | 1/7/2021 to 30/6/2022 | 100 licenses issued |
| | | Scrap Metal Regulations | Regulations developed | SMC | 1/7/2021 to 30/6/2022 | 1 regulation developed |
| | | Automation of the application and licensing process | Automation systems installed | SMC | 1/7/2021 to 30/6/2022 | Automation systems in place |
| | To operationalize the scrap metal council | Operationalized Council | % Level of operationalization of the scrap metal council: <ul style="list-style-type: none"> • Staff secondment • office space • Induction of Council • Preparation of operations procedures | SMC SDI | 1/7/2021 to 30/6/2022 | 40% operationalized in terms of staff secondment |

Scrap Metal Council

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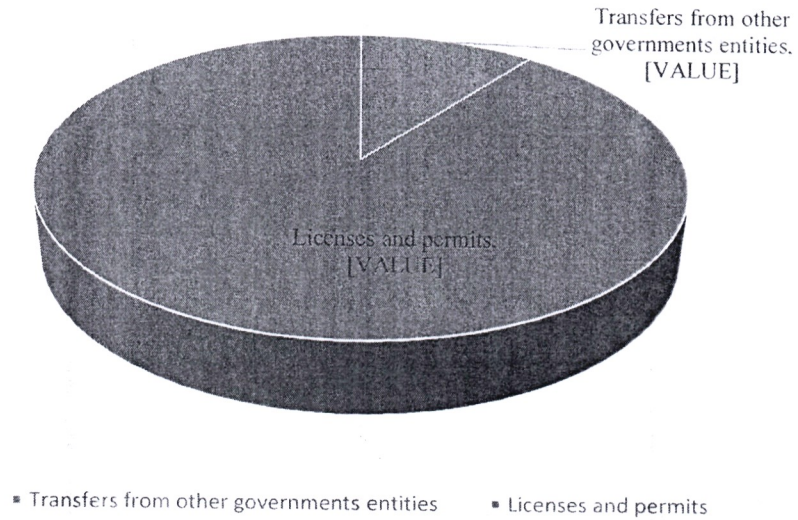
| Programmes /Projects | Objectives | Expected outcomes/Output | Performance Indicator | Implementing Agency | Timeframe | Current Status Achievement Level |
|--|---|--|---|---------------------|-----------------------|--|
| | | | and Manuals | | | |
| Advisory services to the cabinet secretary | To advise the Cabinet Secretary on matters of regulating the scrap metal dealings | Appropriate measures and mechanisms for regulating the scrap metal industry instituted | No. of technical briefs reports to the Cabinet Secretary | SMC | 1/7/2021 to 30/6/2022 | Prepared 3 technical briefs to the Cabinet Secretary |
| | | | Level of inspection to scrap metal dealer to control movement of hazardous material | SMC KRA | 1/7/2021 to 30/6/2022 | 100% compliance on the restriction of hazardous materials into the country |
| | | | No. of awareness programmes to control vandalism, theft of utility infrastructure and private property on scrap metal | SMC NPS | 1/7/2021 to 30/6/2022 | 4 sensitization workshop for the scrap metal dealers in Nairobi |

Scrap Metal Council

Annual Report and Financial Statements for the year ended June 30, 2022.

The Revenue collected throughout the period is plotted as below:

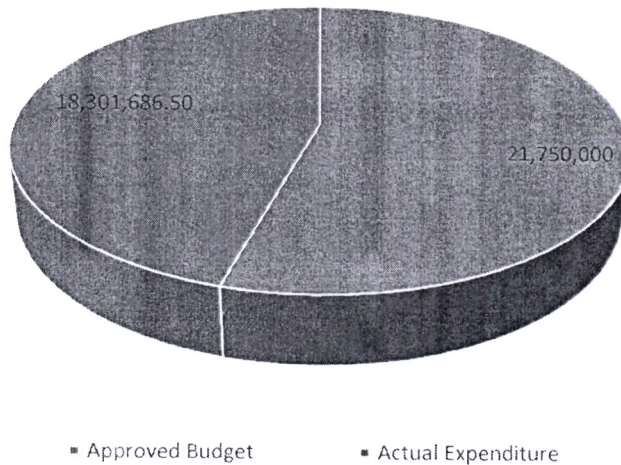
Revenue from non-exchange transactions



Source: SMC computation

In terms of Budget Allocated and Actual Expenditure for the Council for the period

Approved Budget Vs Actual Expenditure



Source: SMC computation

7. 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 Scrap Metal Council is responsible for the governance role of the Council. Both the Council and senior management of the Council are committed to the highest levels of corporate governance, which it considers critical in achieving the Council's mandate. Accordingly, the Council therefore fosters a culture that values and rewards the highest ethical standards and personal and corporate integrity.

The Council recognises that for governance to be effective it must be realised through leadership and collaboration with the council members at the top leading by example and complementing the senior management. These enables effective and efficient decision making and discharge of duties.

The Role and functioning of the Council

The Council'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 Council is set out in the Scrap Metal Act No. 1 of 2015 that establishes the Council as a State Corporation. Specifically, the Council defines 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.

Council members bring a wealth of experience and knowledge to the Council's deliberations. Except for direction and guidance on general policy, the Council delegates authority of its day-to-day activities to the management through the Head of Secretariat. The Council nonetheless is responsible for the overall stewardship of the council and assumes responsibility for effective direction and control.

Composition of the Council

The Council is as stipulated in the Scrap Metal Act. The Council comprises Ten (10) members. Five (5) of the members are independent non-executive including the Chairman from industry stakeholders other than the chairman who is appointed by the Cabinet Secretary. All non-executive Council members retire after a term of three (3) years from the date of appointment and are eligible for re-appointment, the remaining five (5) members are institutional representatives bringing on Board closely-knit interests, experiences and balance from and by key stakeholders.

Scrap Metal Council

Annual Report and Financial Statements for the year ended June 30, 2022.

The Head of Secretariat is the Secretary to the Council and works closely with other members of the Secretariat deployed from the State Department for Industrialization. The oversight role of the secretariat is to provide strategic direction for the council. Specifically, the council is responsible for;

- i. Determining the council's Mission, Vision, Purpose and Core Values
- ii. Reviewing, evaluating and approving on regular basis, long terms plans for the council
- iii. Reviewing, evaluating and approving the council's budget and financial forecasts
- iv. Reviewing, evaluating and approving major resources allocations and capital investments
- v. Ensuring that the procurement process is cost effective and delivers value for money
- vi. Reviewing and approving the operating and financial results of the council
- vii. Ensuring effective, accurate, timely and transparent disclosures of pertinent information on the organization's operations and performance
- viii. Ensuring that effective processes and controls are in place
- ix. Reviewing, evaluating and approving overall organization's structure, the
- x. assignment of senior management responsibilities and plans for
- xi. Senior management development and succession
- xii. Reviewing, evaluating and approving the remuneration structure of the organization
- xiii. Adopting, implementing and monitoring compliance with organization's Code of Conduct and Ethics
- xiv. Reviewing on quarterly basis the attainment of the targets and objectives set out in agreed performance measurement with the GOK
- xv. Reviewing periodically the organization's strategic objectives, and policies relating to sustainability and social responsibility/investment
- xvi. Enhancing council's public image and ensure engagement with stakeholders through effective communication
- xvii. Monitoring compliance with the Constitution, and applicable laws, regulations and standards
- xviii. Reviewing, monitoring and ensuring that the organization is effectively and consistently delivering on its mandate

Scrap Metal Council

Annual Report and Financial Statements for the year ended June 30, 2022.

Council Meetings

The Council schedule of meetings is prepared annually in advance. The Council 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 Council held four (4) regular and four (4) special meetings.

Committees of the Council

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

a) Audit and Risk Management Committee

The Committee assists the Council 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.

The members of this committee are;

1. John Gathatwa,
2. Shezad Fazal,
3. Sarah Duncan,
4. Stephen Mutoro
5. Joseph Mbeva

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 three (3) regular and two (2) special meetings and in the year under review.

The members of this committee are;

1. Bobby Aaron Johnson,
2. Stella Mucheke,
3. Stephen Macharia,

Scrap Metal Council

Annual Report and Financial Statements for the year ended June 30, 2022.

4. Michael Muchiri
5. Joseph Mbeva

c) Technical committee

The committee is responsible for overseeing the licensing and inspection activities of the Council.

The members of this committee are;

1. Sarah Duncan,
2. Stella Mucheke,
3. John Gathatwa,
4. Stephen Mutoro
5. Joseph Mbeva

Performance Contract

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

Conflict of Interest

Council Members 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. A register is maintained for this purpose.

Directors Emoluments

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Scrap Metal Council

Annual Report and Financial Statements for the year ended June 30, 2022.

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It is responsible for executing and implementing strategies adopted by the council to ensure optimal performance of the council. The Head of the Secretariat provides the pivot link between the management and the council. The management committee comprises of:

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7. Edith Ndung'u
8. David Kiptoo.

Scrap Metal Council

Annual Report and Financial Statements for the year ended June 30, 2022.

8. MANAGEMENT DISCUSSION AND ANALYSIS

During the year under review ending 30th June 2022, the Council set out to develop structures for the operationalization of the council.

Due to lack of staff of the Secretariat, the activities of the Council did not pick up well until towards the end of the financial year when additional staff was deployed to the Secretariat from the state Department for Industrialization.

Due to inadequate staff and funding, the Council is straggling to meet its mandate which heavily relies on mapping out all the scrap metal dealers in the country to facilitate regulation and licensing.

One of the major risks the Council faces is dependency on the State Department for the deployment of staff to the secretariat. Given that the state department itself is understaffed, it becomes a challenge for it to deploy adequate staff to the secretariat to facilitate the implementation of the mandate. The Council however proposes to amend the act so that it provides for recruitment of staff to adequately equip the secretariat with the necessary fulltime skilled manpower to implement its mandate.

By Order of the Board

Name: George Tackatth Signature:  Date: 14/11/22

Secretary to the Board

Scrap Metal Council

Annual Report and Financial Statements for the year ended June 30, 2022.

9. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

The Scrap Metal Council (SMC) is a State Corporation established under the Scrap Metal Act No. 1 of 2015. Law to regulate Scrap Metal dealings in the country establishes the Council. The Council's mandate as indicated by the Scrap Metal Act No. 1 of 2015 is to regulate dealing in scrap metal.

The mandate of the Council includes: advising the Cabinet Secretary on: the appropriate measures and mechanisms for regulating the scrap metal industry in ensuring economic growth; protection of public health and conformity to the environmental stewardship as required by the Basel Convention; measures and mechanisms for protecting public interest against vandalism, theft of utility infrastructure and private property; attracting investors on the utilization of excess scrap materials and supporting existing users of scrap metal; and licensing under the scrap metal Act;

The Council undertook the following activities under the Corporate Social Responsibility for the period ended 30th June, 2022:

i). Sustainability strategy and profile -

The Council put in place the measures to continue automating the process of applying for licensing by the business operators. This ensured continued offer of services even with continued Covid-19 restriction measures. This streamlined the operation of the Council for efficient and effective service delivery.

The Council put in place various Sub Committees of the Board to perform and oversight the SMC Secretariat in its performance of the day to day operations. These included the establishment of the following sub committees: Finance and Human Resource, Audit and Governance and Technical Committee.

In addition, the Secretariat has set in motion mechanisms of engaging with the Key Stakeholders including the Ministry of Interior and Coordination of National Government, National Police service and Scrap Metal dealers with a view to supporting it in the implementation of the Council Programmes. This engagement has resulted in the setting up of a **Multi-Agency Team (MAT)** at the County level to help in the vetting and inspection aspects of the licensing process. This will enhance the Council's visibility in terms of its operations and activities.

ii). Environmental Performance

The Council through its application for licensing by the Scrap Metal dealers, instituted a review process to ensure that they are compliant with: the provision of the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal; and protecting public interest against vandalism, theft of utility infrastructure and private property.

The Council also through the awareness creation campaign programme sensitized the scrap metal dealers on matters environment as required in the Environmental Management and Co-ordination Act provisions.

iii). Employee welfare

Officers deployed at the Scrap Metal Council secretariat have continued to enjoy and receive the same employee welfare benefits as designed by the State Department for Industrialization. The

Scrap Metal Council

Annual Report and Financial Statements for the year ended June 30, 2022.

Accounting Officer developed and implemented employee welfare and wellness programmes in the workplace to improve employee productivity, motivation, team working and working environment for the staff at the Headquarters.

These programmes included:

- i.) Medical camp for the staff for general check-up, HIV testing and counselling, Cancer awareness among others;
- ii.) Training on HIV and Aids matters;
- iii.) Stress Management and Mental wellness
- iv.) Undertook regular distribution of condoms to staff in various offices;
- v.) Facilitated leave management for all the employees including leave commutation, bereavement leave where possible; and
- vi.) Undertook fumigation of offices as a measure to contain spread of Covid-19 virus in offices.
- vii.) Provided sanitizer in the offices, lift lobbies and other strategic locations within the work environment.

iv). Market Place Practices

The Scrap Metal Council is spearheading the implementation of public procurement preferences targeting special groups of women, youth and persons with disabilities. The Council in the meantime has been using the State Department for Industrialization list of registered suppliers/contractors for supply/provision of goods, works & services for the year ended 30th June 2021.

The measures put in place included:

- i.) Council using the Government Advertising Agency to place for its advertisement for delivery of various categories of goods and services;
- ii.) Conducted evaluation of tenders for goods and services in a transparent manner adhering to all laid down procedures;
- iii.) Cleared the pending bills with the available resources provided and within reasonable timelines.

v). Community Engagements

The Scrap Metal Council worked with the private sector associations/ communities in advocating for implementation of the provisions of the Scrap Metal Act 2015 and its regulations. This was through participation of the Council in various activities organized including: joining the Micro Small and Medium-sized Enterprises Day on June 27th, 2022, celebrations.

Scrap Metal Council

Annual Report and Financial Statements for the year ended June 30, 2022.

10. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the twelve months period ended June 30, 2022, which show the state of the entity's affairs.

i) Principal activities

The principal activities of the entity are:

- Licencing
- Protection of private and public property from vandalism
- Protection of public health by control of transboundary movement of hazardous materials
- Promotion of investments in utilisation of scrap metal materials

ii) Results

The results of the entity for the period ended June 30, 2022, are set out on page xv.

iii) Directors

The members of the Council who served during the year are shown on page vi and vii.

iv) Surplus remission

In accordance with Regulation 219 (2) of the Public Financial Management (National Government) Regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. The entity did not make any remittance to the Consolidated Fund.

v) Auditors

The Auditor General is responsible for the statutory audit of the entity in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board

Name: George M. Katoto Signature  Date: 14/11/22

Secretary to the Board

11. STATEMENT OF DIRECTORS RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and (section 14 of the State Corporations Act, and the scrap metal act no. 1 of 2015) require the Directors to prepare financial statements in respect of the Scrap Metal Council, which give a true and fair view of the state of affairs of the Council at the end of the financial period and the operating results of the Council for year ending 30th June 2021. The Directors are also required to ensure that the Council keeps proper accounting records which disclose with reasonable accuracy the financial position of the Council. The Directors are also responsible for safeguarding the assets of the Council.

The Directors are responsible for the preparation and presentation of the Council's financial statements, which give a true and fair view of the state of affairs of the Council for and as at the end of the ten months period ended on June 30, 2021. This responsibility includes: (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) Safeguarding the assets of the Council; (v) Selecting and applying appropriate accounting policies; and (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Scrap Metal Council's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and (the State Corporations Act) and the scrap metal act no. 1 of 2015. The Directors are of the opinion that the Council's financial statements give a true and fair view of the state of the Council's transactions during the financial year/ ended June 30, 2022, and of the Council's financial position as at that date.

The Directors further confirms the completeness of the accounting records maintained for the Council which have been relied upon in the preparation of the Council's financial statements as well as the adequacy of the systems of internal financial control.

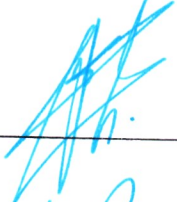

Nothing has come to the attention of the Directors to indicate that the Council will not remain a going concern for at least the next twelve months from the date of this statement.

Scrap Metal Council


Annual Report and Financial Statements for the year ended June 30, 2022.

Approval of the financial statements

The Scrap Metal Council's financial statements were approved by the Council on **14th July 2022** and signed on its behalf by:

Signature:  Signature: 

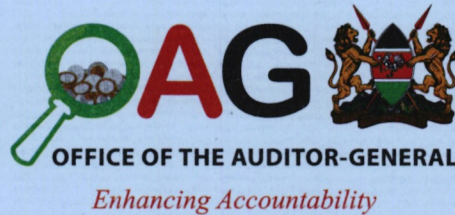
Name: Ahmad Raza Name: George Takaketu

 Chairperson of the Board/Council

Head of Secretariat

REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON SCRAP METAL COUNCIL FOR THE YEAR ENDED 30 JUNE, 2022

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Scrap Metal Council set out on pages 1 to 22, which comprise of the statement of financial position as at 30 June, 2022, 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, the Public Finance Management Act, 2015 and the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Scrap Metal Council as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis), the Public Finance Management Act, 2012 and comply with the Scrap Metal Act, 2015.

Basis of Opinion

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

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Lack of Appointment of Inspectors

Review of the Council records revealed that due to lack of appointment of inspectors to undertake the vetting exercise, the scrap metal dealers were not vetted during the year under review. This was contrary to Section 29(i) of the Scrap Metal Council Act, No.1 of 2015 which requires Cabinet Secretary to appoint such number of Inspectors with adequate training in metallurgy or related field of study, and to issue certificates of authority to them to act as scrap metal inspectors, for a renewable period of three (3) years.

Although Council Management has explained that the inspector's appointing process was delayed by a Presidential Moratorium which was announced in January, 2022 suspending

all the activities related to scrap metal dealing until guidelines were formulated to regulate the sector, lack of inspectors negatively affects the efficient and effective performance of the Council.

In the circumstances, the Council was in breach of the Law.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

Responsibilities of Management and those Charged with Governance

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

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

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are

in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Council's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

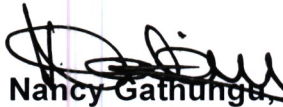
Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Council to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Council to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

05 January, 2023

12. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2022

| | Notes | 2021-2022 | 2020-2021 |
|---|-------|--------------------|-------------------|
| | | Kshs | Kshs |
| Revenue from non-exchange transactions | | | |
| Transfers from other governments entities | 6 | 11,750,011 | 11,638,500 |
| Licenses and permits | 7 | 102,731,000.00 | 8,750,000 |
| Total revenue | | 114,481,011 | 20,388,500 |
| Expenses | | | |
| Use of goods and services | 8 | 12,794,075 | 12,084,579 |
| Board Expenses | 9 | 4,286,400 | 4,204,160 |
| Finance costs | 10 | 63,697 | 2,122 |
| Total expenses | | 17,144,172 | 16,290,861 |
| Net Surplus for the year | | 97,336,839 | 4,097,639 |

The notes set out on pages 6 to 21 form an integral part of these Financial Statements.

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

Head of Secretariat

Name: George Haketeb

Head of Finance

Name: Jecinta Obandi

Chairman of the Board

Name: Shamsi Ahmad

ICPAK Member

Number: 4587

Date: 14/11/22

Date: 14/11/22

Date: 14th Nov, 22.


(Indicate actual name of the entity)


Annual Report and Financial Statements for the year ended June 30, 2022.

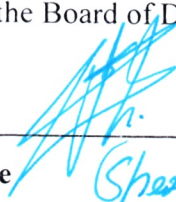
13. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022

| | Notes | 2021-2022 | 2020-2021 |
|---|-------|--------------------|------------------|
| | | Kshs | Kshs |
| Assets | | | |
| Current Assets | | | |
| Cash and Cash equivalents | 12 | 101,584,478 | 5,802,430 |
| Total Assets | | 101,584,478 | 5,802,430 |
| Liabilities | | | |
| Current Liabilities | | | |
| Trade and Other Payables | 13 | 150,000 | 1,704,791 |
| Total Liabilities | | 150,000 | 1,704,791 |
| Net Assets | | | |
| Accumulated Surplus | 14 | 101,434,478 | 4,097,639 |
| Total Net Assets | | | - |
| Total Net Assets and Liabilities | | 101,584,478 | 4,097,639 |

The financial statements set out on pages 1 to 5 were signed on behalf of the Board of Directors by:


Name George Makateto
Head of Secretariat


Name Jecinta Obundi
Head of Finance
ICPAK Member
Number: 4587


Name Sheena Patel
Chairman of the Board

Date: 14/11/22

Date: 14/11/2022

Date: 14/11/22

(Indicate actual name of the entity)

Annual Report and Financial Statements for the year ended June 30, 2022.


14. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2022


| | | 2021-2022 | 2020-2021 |
|---|-------|--------------------|-------------------|
| | Notes | Kshs | Kshs |
| Cash flows from operating activities | | | |
| Receipts | | | |
| Transfers from other governments entities | 6 | 11,750,011 | 11,638,500 |
| Licenses and permits | 7 | 102,731,000 | 8,750,000 |
| Total receipts | | 114,481,011 | 20,388,500 |
| Payments | | | |
| Use of goods and services | 8 | 12,794,075 | 12,084,579 |
| Board Expenses | 9 | 4,286,400 | 4,204,160 |
| Finance costs | 10 | 63,697 | 2,122 |
| Total payments | | 17,144,172 | 16,290,861 |
| Net cash flows from/(used in) operating activities | | 97,336,839 | 4,097,639 |
| | | | |
| | | | |
| Net increase/(decrease) in cash & Cash equivalents | | 96,179,324 | 5,802,430 |
| Cash and cash equivalents at 1 July 2021 | 12 | 5,405,154* | 0 |
| Cash and cash equivalents at 30 June 2022 | 11 | 101,584,478 | 5,802,430 |

*Ksh. 5,405,154 relates to the actual cash book balance as the bank statement balance was used in the previous year's report.

The financial statements set out on pages 1 to 5 were signed on behalf of the Board of Directors by:


Name: George Plaretto
Head of Secretariat


Name: Jecinta Obadi
Head of Finance


Name: Ghassan Pared
Chairman of the Board

Date: 14/11/22

ICPAK M/No: 9587
Date: 14/11/22


Date: 14/11/22

15. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2022

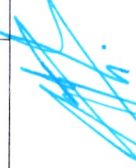
| | Ordinary share capital | Revaluation reserve | Fair value adjustment reserve | Retained earnings | Proposed dividends | Capital/Development Grants/Fund | Total |
|-------------------------------|------------------------|---------------------|-------------------------------|-------------------|--------------------|---------------------------------|-------------|
| | Kshs | Kshs | Kshs | Kshs | Kshs | Kshs | Kshs |
| As at July 1, 2020 | - | - | - | - | - | - | - |
| Surplus/ deficit for the year | - | - | - | 4,097,639 | - | - | 4,097,639 |
| As at June 30, 2021 | - | - | - | 4,097,639 | - | - | 4,097,639 |
| As at July 1, 2021 | - | - | - | 4,097,639 | - | - | 4,097,639 |
| Surplus/ deficit for the year | - | - | - | 97,336,839 | - | - | 97,336,839 |
| As at June 30, 2022 | - | - | - | 101,434,478 | - | - | 101,434,478 |

 Name: George M. Mutuku

Head of Secretariat

 Name: Jennifer Obundu

Head of Finance

 Name: Sheard Prasad

Chairman of the Board

ICPAK M/No: 9587

Date: 14/11/22

Date: 14th Nov, 22.

Scrap Metal Council
Annual Reports and Financial Statements for the year ended June 30, 2022.

16. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2022

| | Original budget Kshs | Adjustments Kshs | Final budget Kshs | Actual on comparable basis Kshs | Performance difference Kshs | % of utiliza tion |
|---|-------------------------|---------------------|----------------------|--|-----------------------------------|-------------------------|
| | a | b | C=(a+b) | d | e=(c-d) | f=d/c* 100 |
| Revenue | | | | | | |
| Transfers from Other Governments entities | 11,750,000 | - | 11,750,000 | 11,750,011 | 11 | 100 |
| Licenses and Permits | 10,000,000 | - | 10,000,000 | 102,731,000 | (92,731,000) | 1027 |
| Total Income | 21,750,000 | - | 21,750,000 | 114,481,011 | (92,731,011) | 526 |
| Expenses | | | | | | |
| Use of Goods and Services | 16,745,000 | - | 16,745,000 | 12,794,075 | 3,950,925 | 77 |
| Remuneration of Directors | 5,000,000 | - | 5,000,000 | 4,286,400 | 713,600 | 86 |
| Finance cost | 5,000 | - | 5,000 | 63,697 | (58,697) | 1274 |
| Total Expenditure | 21,750,000 | - | 21,750,000 | 17,144,172 | 4,605,828 | 79 |
| Surplus for the period | | | | 97,336,839 | | |

Name: George Mwakoko
Head of Secretariat
Date: 14/11/22

Name: Jocinta Obudi
Head of Finance
ICPAK M/No: 9587
Date: 14/11/2022

Name: Joseph Mberu
Chairman of the Board
Date: 14/11/2022

17. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Scrap Metal Council Entity is established by and derives its authority and accountability from Scrap Metal Council Act of 2015. The Entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The principal activity (mandate) of the Council is to regulate dealings in scrap metal, with the vision to be a premier regulator for scrap metal dealing within the region and beyond.

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the *Entity's* accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5 of these financial statements.

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

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act (*include any other applicable legislation*), and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

Notes to the Financial Statements (Continued)

3. Adoption of New and Revised Standards

- i. *New and amended standards and interpretations in issue effective in the year ended 30 June 2022.*

IPSASB deferred the application date of standards from 1st January 2022 owing to Covid 19. This was done to provide entities with time to effectively apply the standards. The deferral was set for 1st January 2023.

- ii. *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2022.*

| Standard | Effective date and impact: |
|---|--|
| <p>IPSAS 41: Financial Instruments</p> | <p>Applicable: 1st January 2023:</p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an Entity’s future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset’s cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an Entity’s risk management strategies and the accounting treatment for instruments held as part of the risk management strategy. <p><i>(State the impact of the standard to the Entity if relevant)</i></p> |
| <p>IPSAS 42: Social Benefits</p> | <p>Applicable: 1st January 2023</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Entity provides in its financial statements about social benefits. The</p> |

| Standard | Effective date and impact: |
|---|---|
| | <p>information provided should help users of the financial statements and general-purpose financial reports assess:</p> <ul style="list-style-type: none"> (a) The nature of such social benefits provided by the Entity. (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the Entity's financial performance, financial position and cash flows. <p><i>(State the impact of the standard to the Entity if relevant)</i></p> |
| <p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p> | <p>Applicable: 1st January 2023:</p> <ul style="list-style-type: none"> a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued. b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p> <p><i>(State the impact of the standard to the Entity if relevant)</i></p> |
| <p>Other improvements to IPSAS</p> | <p>Applicable 1st January 2023</p> <ul style="list-style-type: none"> • <i>IPSAS 22 Disclosure of Financial Information about the General Government Sector.</i> <p>Amendments to refer to the latest System of National Accounts (SNA 2008).</p> <ul style="list-style-type: none"> • <i>IPSAS 39: Employee Benefits</i> <p>Now deletes the term composite social security benefits as it is no longer defined in IPSAS.</p> <ul style="list-style-type: none"> • IPSAS 29: Financial instruments: Recognition and Measurement Standard no longer included in the 2021 IPSAS handbook as it is now |

| Standard | Effective date and impact: |
|--|--|
| | superseded by IPSAS 41 which is applicable from 1 st January 2023. <i>State the impact of the standard to the Entity if relevant</i> |
| IPSAS 43 | <i>Applicable 1st January 2025</i> The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity. The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities. <i>State the impact of the standard to the Entity if relevant</i> |
| IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations | <i>Applicable 1st January 2025</i> The Standard requires, Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and: Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance. <i>State the impact of the standard to the Entity if relevant</i> |

iii. ***Early adoption of standards***

The Entity did not early – adopt any new or amended standards in year 2021/2022.

Notes to the Financial Statements (Continued)

4. Summary of Significant Accounting Policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Fees, taxes and fines

The Entity 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.

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 Entity and can be measured reliably. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.

Rendering of services

The Entity 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.

b) Budget information

The original budget for FY 2021-2022 was approved by the National Assembly on xxxx. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Entity upon receiving the respective approvals in order to conclude the final budget.

Notes to the Financial Statements (Continued)

Budget information (continued)

The Entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section xxx of these financial statements.

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 Entity 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.

d) Financial instruments

a) 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 Entity 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.

Held-to-maturity.

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are 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. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or an Entity of financial assets is impaired. A financial asset or an Entity 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 Entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

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

Notes to the Financial Statements (Continued)

b) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Entity determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

e) 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 conditions are accounted for, as follows:

- i) Raw materials: purchase cost using the weighted average cost method.
- ii) 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 *Entity*.

Notes to the Financial Statements (Continued)

f) Provisions

Provisions are recognized when the Entity 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 Entity 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.

g) Contingent liabilities

The Entity 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.

h) Contingent assets

The Entity 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 Entity 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) Changes in accounting policies and estimates

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

j) Related parties

The *Scrap Metal Council* regards a related party as a person or an Entity with the ability to exert control individually or jointly, or to exercise significant influence over the *SMC* or vice

Notes to the Financial Statements (Continued)

Annual Reports and Financial Statements for the year ended June 30, 2022.

versa. Members of key management are regarded as related parties and comprise *the Council members, the Head of Secretariat and secretariat team.*

k) Service concession arrangements

The *SMC* analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the *SMC* recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price.

In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the *SMC* also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

l) 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.

Notes to the Financial Statements (Continued)

m) Comparative figures

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

n) 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, 2022.

Notes to the Financial Statements (Continued)

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the Entity'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. State all judgements, estimates and assumptions made:

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity 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 Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual value

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- a) The condition of the asset based on the assessment of experts employed by the Entity.
- b) The nature of the asset, its susceptibility and adaptability to changes in technology and processes.
- c) The nature of the processes in which the asset is deployed.
- d) Availability of funding to replace the asset.
- e) Changes in the market in relation to the asset

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 40.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Notes to the Financial Statements (Continued)

6. Transfers from Other Government entities

| Name Of The Entity Sending The Grant | Amount recognized to Statement of Financial performance | Amount deferred under deferred income | Amount recognised in capital fund. | Total transfers 2021-22 | Prior year 2020-2021 |
|--|---|---------------------------------------|------------------------------------|-------------------------|----------------------|
| | KShs | KShs | KShs | KShs | KShs |
| State Department for Industrialization | 11,749,999 | - | - | 11,749,999 | 11,638,500 |
| Bank rounding factor (November 2021) | 11.60 | - | - | 11.60 | - |
| Total | 11,750,010.60 | - | - | 11,750,010.60 | 11,638,500 |

7. Licenses, Fees and Permits

| Description | 2021-2022 | 2020-2021 |
|--------------|--------------------|------------------|
| | Kshs | Kshs |
| Licenses | 102,731,000 | 8,750,000 |
| Total | 102,731,000 | 8,750,000 |

*Our revenue increased due to Presidential directive issued in January 2022.

8. Use of Goods and Services

| Description | 2021-2022 | 2020-2021 |
|--|-------------------|-------------------|
| | Kshs | Kshs |
| Advertising | 303,420 | 361,515 |
| Audit Fees | 150,000 | 150,000 |
| Conferences | 1,399,100 | 857,640 |
| Hospitality | 326,260 | 177,353 |
| Fuel | 83,831.50 | 257,500 |
| Telecommunication | - | 74,060 |
| Training | 312,400 | - |
| Travel, Subsistence & Other Allowances | 9,015,495 | 9,789,035 |
| Other General Expenses | 1,005,008 | - |
| Rent | - | 15,000 |
| Maintenance of motor vehicle | 198,560 | 402,476 |
| Total | 12,794,075 | 12,084,579 |

Notes to the Financial Statements (Continued)

9. Board Expenses

| Description | 2021-2022 | 2020-2021 |
|-------------------------------|------------------|------------------|
| | Kshs | Kshs |
| Chairman/Directors' Honoraria | 960,000 | 960,000 |
| Sitting Allowances | 2,422,000 | 1,760,000 |
| Induction and Training | - | 360,000 |
| Travel and Accommodation | 904,400 | 1,124,160 |
| Total | 4,286,400 | 4,204,160 |

10. Finance Costs

| Description | 2021-2022 | 2020-2021 |
|----------------------------|---------------|--------------|
| | Kshs | Kshs |
| Bank charges | 63,697 | 2,122 |
| Total finance costs | 63,697 | 2,122 |

11. Cash and Cash Equivalents

| Description | 2021-2022 | 2020-2021 |
|--|-----------------------|------------------|
| | Kshs | Kshs |
| Current Account | 101,584,478.10 | 5,802,430 |
| Total Cash And Cash Equivalents | 101,584,478.10 | 5,802,430 |

12. (a) Detailed Analysis of the Cash and Cash Equivalents

| Financial Institution | Account number | 2021-2022 | 2020-2021 |
|----------------------------|----------------|-----------------------|------------------|
| | | Kshs | Kshs |
| a) Current Account | | | |
| Kenya Commercial Bank | 1280294760 | 102,998,778.10 | 5,802,430 |
| Less unrepresented cheques | | -1,414,300.00 | -397,276 |
| Grand Total | | 101,584,478.10 | 5,405,154 |

*Kshs. 5,405,154 relates to the actual cash book balance as the bank statement balance was used in the previous year's report.

Notes to the Financial Statements (Continued)

13. Trade Payables

| Description | 2021-2022 | 2020-2021 |
|---------------------------------------|----------------|------------------|
| Trade payables | Kshs | Kshs |
| PAYE | - | 796,000 |
| Ministry of ICT | - | 361,515 |
| KENAO | 150,000 | 150,000 |
| Crimson Tyres | - | 397,276 |
| Total trade and other payables | 150,000 | 1,704,791 |

14. Accumulated surplus

| | Surplus for 2021-2022 | Surplus for the year 2021-2021 | Accumulated surplus 2021-2022 |
|--|--------------------------|-----------------------------------|----------------------------------|
| | 4,097,639 | 97,336,839 | 101,434,478.10 |
| | | | |

15. Financial Risk Management

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

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

i) Credit risk

The Entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments. Management assesses the credit quality of each customer, taking into account its Financial position, past experience and other factors. Individual risk limits are set based on

Notes to the Financial Statements (Continued)

Internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Entity's management based on prior experience and their assessment of the current economic environment.

Financial Risk Management

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the Entity has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts. The Entity has significant concentration of credit risk on amounts due from 0. The board of directors sets the Entity's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Entity's directors, who have built an appropriate liquidity risk management framework for the management of the Entity's short, medium and long-term funding and liquidity management requirements. The Entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

iii) Market risk

The SMC has put in place an internal audit function to assist it in assessing the risk faced by the Entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee. The Entity's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day implementation of those policies. There has been no

Notes to the Financial Statements (Continued)

change to the Entity's exposure to market risks or the manner in which it manages and measures the risk.

16. Related Party Disclosures

Nature of related party relationships

Entities and other parties related to the *Entity* include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

Government of Kenya

The Government of Kenya is the principal shareholder of SMC, holding 100% of the *Entity's* equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the Entity, both domestic and external.

Other related parties include:

- i) The State Department for Industrialization.
- ii) Board of directors.

17. Surplus Remission

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year.

18. Events after the Reporting Period

There were no material adjusting and non- adjusting events after the reporting period.

19. Ultimate And Holding Entity

Scrap Metal Council is a State Corporation/ or a Semi- Autonomous Government Agency under the Ministry of Trade, Industrialization and Enterprise Development. Its ultimate parent is the Government of Kenya.

20. Currency

The financial statements are presented in Kenya Shillings (Kshs).

APPENDIX I: IMPLEMENTATION STATUS OF AUDITOR-GENERAL'S RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|-----------------------------------|---------------------|-----------------------------------|--|
| | | | | |
| | | | | |
| | | | | |

Guidance Notes:

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your Entity responsible for implementation of each issue;
- (iv) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.

Head of Secretariat George Makoteho
Date: 14/11/22

APPENDIX II- SCRAP METAL COUNCIL CONFIRMATION LETTER

[Insert your Letterhead]

[Insert name of beneficiary Entity]

[Insert Address]

Confirmation of amounts received by Scrap Metal Council as at 30th June 2022

| Reference Number | Date Disbursed | Amounts Disbursed by State Department for Industrialization (Kshs) as at 30th June 2022 | | | | Amount Received by [beneficiary Entity] (Kshs) as at 30 th June 2021 (E) | Differences (Kshs) (F)=(D-E) |
|------------------|----------------|---|-----------------|-----------------------|-------------------|---|------------------------------|
| | | Recurrent (A) | Development (B) | Inter-Ministerial (C) | Total (D)=(A+B+C) | | |
| | 26/08/21 | 979,166 | - | - | 979,166 | 979,166 | |
| | 03/09/21 | 979,167 | - | - | 979,167 | 979,167 | |
| | 30/09/21 | 979,167 | - | - | 979,167 | 979,167 | |
| | 01/11/21 | 979,170 | - | - | 979,170 | 979,170 | |
| | 30/11/21 | 979,170 | - | - | 979,170 | 979,170 | |
| | 02/12/21 | 979,160 | - | - | 979,160 | 979,160 | |
| | 17/02/22 | 979,167 | - | - | 979,167 | 979,167 | |
| | 15/06/22 | 979,167 | - | - | 979,167 | 979,167 | |
| | 15/06/22 | 979,166 | - | - | 979,166 | 979,166 | |
| | 15/06/22 | 979,166 | - | - | 979,166 | 979,166 | |
| | 15/06/22 | 979,167 | - | - | 979,167 | 979,167 | |
| | 27/06/22 | 979,166 | - | - | 979,166 | 979,166 | 1 |
| Total | | 11,749,999 | | | 11,749,999 | 11,749,999 | 1 |

In confirm that the amounts shown above are correct as of the date indicated.

Head of Accountants department of beneficiary Entity:

Name: Ruth Kianganyi Sign: [Signature]

Date: 14/11/22

The State Department for Industrialization wishes to confirm the amounts disbursed to you as at 30th June 2022 as indicated in the table below. Please compare the amounts disbursed to you with the amounts you received and populate the column E in the table below Please sign and stamp this request in the space provided and return it to us.