REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

STATE DEPARTMENT FOR INDUSTRIALIZATION

FOR THE YEAR ENDED 30 JUNE, 2019

MINISTRY OF INDUSTRY, TRADE AND COOPERATIVES

STATE DEPARTMENT FOR INDUSTRALIZATION

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL PERIOD ENDED

30TH JUNE, 2019

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

I. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background Information

The State Department for Industrialization has been established under the Executive Order No. 1 of June 2018 (Revised in August 2018) which has placed it under the Ministry of Industry, Trade and Cooperatives, with fifteen (15) State Corporations; one (1) training Institution; and two (2) Tribunals. The mandate includes:

i. Industrial Policy and Planning;
ii. SME Policy;
iii. SME Financing Policy;
iv. SME/Biashara Financing Policy;
v. Buy Kenya Build Kenya Policy and Strategy;
vi. To promote Standardization in Industry and Quality Control;
vii. Promotion and Development of Micro and Small Enterprises;
viii. To Promote and facilitate Domestic and Foreign Investments;
ix. Promotion and Oversight of the Development of Special Economic Zones and Industrial Parks;
x. Kenya Property Rights Policy (Patents, Trade Marks, Service Marks, and Innovations);
xi. Promotion of value Addition and Agro-Processing;
xii. Textile Sector Development;
xiii. Leather Sector Development;
xiv. Business Innovation and Incubation;
xv. Promotion and development of the Cottage Industry;
xvi. Oversight and regulation of Scrap Metal Industry
xvii. Promotion and Development of Medium Business Enterprises;
xviii. Industrial Training and Capacity Development.

AUTONOMOUS AND SEMI-AUTONOMOUS GOVERNMENT AGENCIES

The subsector has fifteen (15) autonomous and semi-autonomous agencies. The Agencies undertake various functions and mandates to support investment and industrial development in the country.

The Autonomous Government Agencies include:

i. East African Portland Cement Company (EAPCC)
ii. Industrial and Commercial Development Corporation (ICDC)
iii. Kenya Bureau of Standards (KEBS
iv. IDB Capital Limited

The Semi-Autonomous Government Agencies includes:

v. Kenya National Accreditation Services (KENAS)
vi. Kenya Industrial Estates (KIE)
vii. Kenya Industrial Property Institute (KIPI)
viii. Kenya Industrial Research and Development Institute (KIRDI)
ix. Numerical Machining Complex (NMC)
x. Micro and Small Enterprises Authority (MSEA)
xi. Export Processing Zones Authority (EPZA)
xii. Kenya Leather Development Council (KLDC)
xiii. Kenya Investment Authority
xiv. Special Economic Zones Authority
xv. Scrap Metal Council (SMC).

Under the Kenya Governments Big Four Agenda 2018-2022, the State Department is mandated with raising the of Manufacturing Sector share to GDP to 15 percent by supporting value addition to accelerate economic growth, create jobs and reduce poverty.

Reports and Financial Statements

At the Cabinet level the Ministry is represented by a Cabinet Secretary who is responsible for the general policy formulation and provides strategic direction.

Vision

Globally competitive and sustainable industrial sector

Mission

To create an enabling environment for a globally competitive and sustainable industrial sector

Strategic Objectives:

The State Department focuses on the following strategic objectives to achieve its goals as outlined in the Kenya Vision 2030, Second Medium Term Plan II (2013-2017) and Kenya Industrial Transformation Programme and the Big Four Agenda.

i. To Increase manufacturing, sector contribution to GDP
ii. To improve product competitiveness and business environment
iii. To attract local and foreign direct investments
iv. To generate Employment opportunities
v. To mobilize resources for Industrial Development
vi. To develop capacity for service delivery.

(b) Principal Activities

The principal activity/mission of the State Department is to create an enabling environment for a globally competitive, sustainable Industrial and Enterprise sector through appropriate policy, legal and regulatory framework.

(c) Key Management

The State Department's day –to-day management is under the following key organs:

State Department for Industrialization include:

i. Directorate of Agro - industries;
ii. Directorate of Chemical and Mineral Industries;
iii. Directorate of County Industrial Support;

iv. Directorate of Engineering and Construction industries;
v. Directorate of Enterprise Development;
vi. Directorate of Manufacturing and Industrialization Policy;
vii. Directorate of Private Sector Development and Business Environment;
viii. Directorate of Research and Development;
ix. Kenya Industrial Training Institute; and
x. Administration and Support Services.

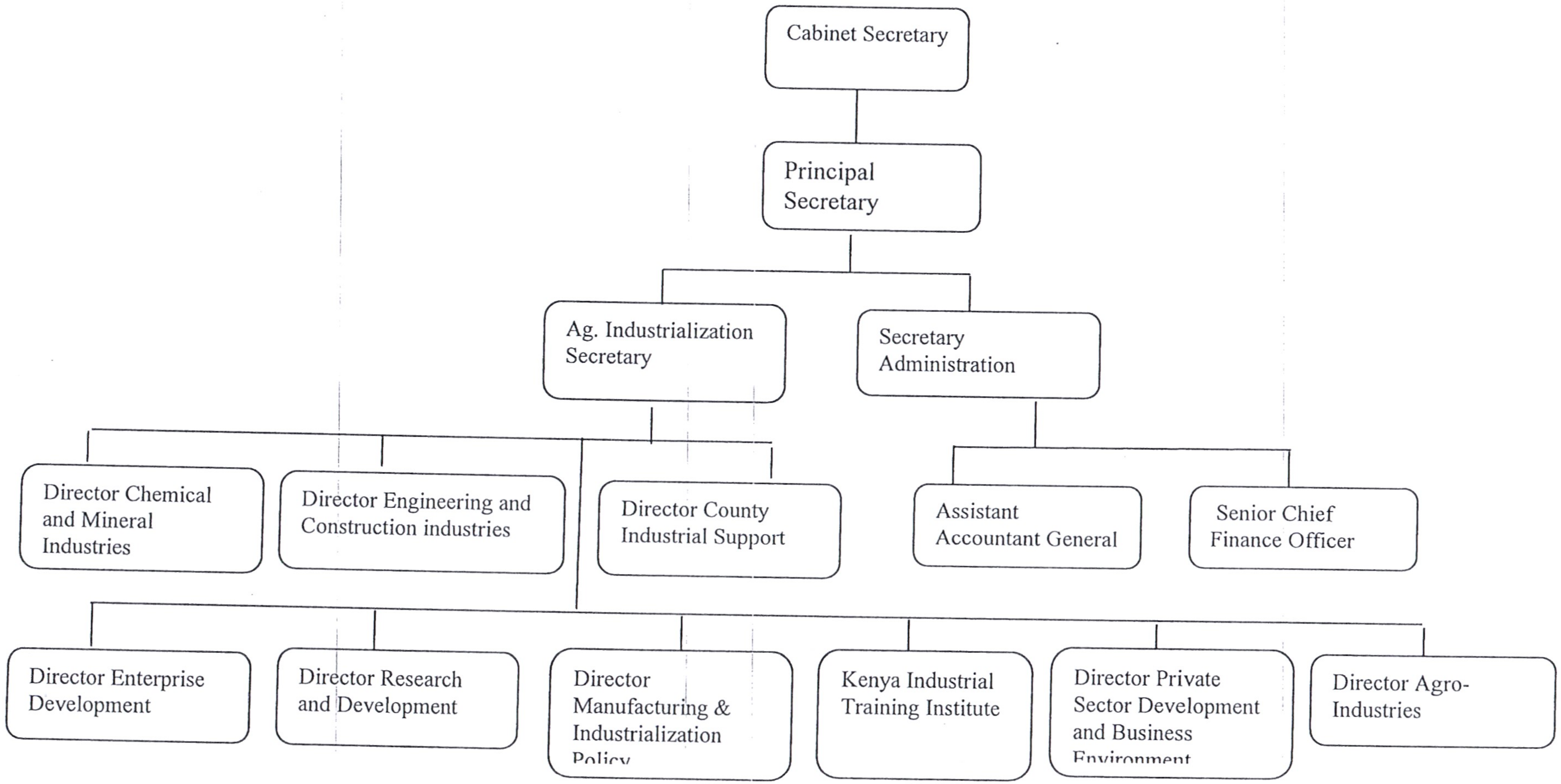
(d) Fiduciary Management

The key management personnel who held office during the Financial Year ended 30th June, 2019 and who had direct fiduciary responsibility were: -

S/No. Designation **Name**

No.	Designation	Name
1.	Cabinet Secretary, Ministry Sports, Culture	Hon. Peter G. Munya
2.	Principal Secretary, State Department of Culture	Dr. Francis O. Owino, PHD
3.	Secretary Administration	Mr. Alex ole Nkoyo
4.	Director Agro – industries	Mr. Hezekiah Okeyo
5.	Director Private Sector Development and Business Environment	Mr. Stephen Odua
6.	Director of Manufacturing & Industrialization Policy	Mr. Charles Mahinda
7.	Director Kenya Industrial Training Institute	Ms. Peris Adema
8.	Director Human Resource and Development	Ms. Judy Njeru
9.	Senior Chief Finance Officer	Mr. Momata Gichana
10.	Assistant Accountat General	Margaret Nyaywera

Key Entity Information and Management (Continued)
Senior Management – State Department for Industrialization



	under Industrial Development Officers Cadre and has risen through the ranks in industrialization docket.
 Stephen A. Odua	Mr. Stephen Odua is the Director of Industries in charge of Business Environment (BE) and Private Sector Development (PSD) in the State Department of Industrialization, Ministry of Industry, Trade and Co-operatives. He is also the Project Coordinator of the Kenya Industry and Entrepreneurship Project (KIEP), a World Bank sponsored Project, and an Alternate Director to the Board of Directors, Kenya Investment Authority.
 Nancy Muya	Ms. Nancy W. Muya is a Director of Industries in charge of Enterprise Development Directorate. She holds BSc. (Maths/Chem) degree from Kenyatta University and is pursuing MSc (Entrepreneurship) degree at Jomo Kenyatta University of Agriculture and Technology. She has over 29 years of experience in civil service, offering her expertise in industrial development while in the Ministry. She has undergone several short-term training programmes during her work experience in industrial development, policy formulation, processing technologies, management and leadership, locally and internationally.
 JULIUS KITHINJI KIRIMA	Julius Kithinji Kirima, HSC is Director of Industries Heading Chemical & Mineral Industries Directorate in the State Department of Industrialization. He holds a Bachelor of Science Degree in Chemistry and Mathematics from the University of Nairobi (UON), Master of Science in Entrepreneurship from Jomo Kenyatta University of Agriculture and Technology (JKUAT), and is currently working on his thesis for the award of Doctor of Philosophy in Entrepreneurship from JKUAT. Mr. Kirima has risen up the ranks in the civil service from Industrial Development Officer II in 1990 to Director of Industries and was awarded Head of State Commendation (HSC) for his distinguished Service to the Republic of Kenya 2011. Mr. Kirima has served previously as Deputy Director of Internal Trade, Chairman of the Technical Committee that Drafted the Anti-Counterfeit Bill 2008 and later Ag. Secretary to Operationalize the Anti-Counterfeit Agency, Coordinator for Kenya Trade and Poverty Programme (KTPP) and Member of High Level Task Force that negotiated East African Community Common Market Protocol. Mr. Kirima is also a Lead Expert in Environmental Impact Assessment and Audit and is trained in Ceramic Kiln and Firing Technology, among others

 Patrick K. Wahome	Mr. Patrick Wahome is Acting Director of Industries in charge of Engineering and Construction Director. He joined Government as public servant in the year 1993 and have worked in various Government Ministries. His experienced in Agriculture sector (16years), Environment Sector (9years) and Manufacturing Sector (1year).
	Ms. Hannar Kiarie is the Acting Director for the Research and Development Directorate. She holds Bachelor's degree in (Food Science and Technology) and Master degree in (Applied Human Nutrition) University of Nairobi.
 Ms. Peris Adema	Ms. Peris Adema is the current Director for the Kenya Industrial Training Institute, Nakuru. She holds Master degree in Corporate Strategy and Economic Policy.
	Dr. Judy Njeru, Director is the Director, Human Resources and Development. She holds Doctor of Philosophy in Diplomacy and International relations, Masters of Arts in International Studies, Masters in Education Administration, Postgraduate Diploma in HRM, and Bachelor's Degree in Education. Other training's include; SLDP, Senior Management, Management of training function, Training needs Analysis, Personnel management Negotiation skills, Team building and Disaster training.

 Margaret Nyaywera	00Ms. Margaret Nyaywera is an Assistant Accountant General and she joined the Department on November 2018. Her main role include management, monitoring and reporting use of resources, clear up audit queries, establish effective internal controls, improve expenditure management and transfers, banking arrangements and complete financial statements on time. She is a holder of MBA specially Finance from Moi University and CPA(K).
 Momata Gichana	Senior Chief Finance Officer. BA Economics, MA Economics, 30 years experience in Public Finance Management. He joined the State Department in 5th September, 2018.

I. KEY ENTITY INFORMATION AND MANAGEMENT

i. Audit and Finance Committee Activities (continued)

- Reviewing and monitoring the external auditor's independence and objectivity, taking into consideration relevant professional and regulatory requirements. In fulfilling its duties, the committee reviews with the external auditors, the scope of their audit plan, system of internal audit reports, assistance given by management and its staff to the auditors and any findings and actions to be taken.
- Reviewing any related party transactions that may arise within the entity.
- Reviewing communication between external auditors and management including responses on audit queries on the annual financial statement raised by the Auditor General.
- Following up on recommendations of the Parliamentary Accounts Committee (PAC).

Attendance of the Audit and Finance Committee members

The following shows the number of finance and audit committee meetings held during the year and the attendance of individual members.

NO.	NAME	POSITION	25/02/19	20/5/19	Total attendance
1	Mr. Stephen K. Mbuko	Chairperson	✓	✓	2
2.	Ms. Jane W. Muthaura	Member	✓	✓	2
3.	Ms. Rose M. Nyamweya	Member	✓	✓	2
4.	Mr. Simon S. Nabosu	Member	✓	✓	2
5	Prof. Daniel K. Tarus	Member	x	x	0
6.	Ms. Lucy Kabaya	Member	✓	✓	2

ii. Budget Committee Activities

This is the committee charged with the responsibility of implementation of the state department's budget and its prudent management. The duties of the committee include:

- To review and consider the cash flow plans
- To review the utilization of the cash limits and consider any changes as may be required;

- To review the utilization of the donor funds voted for the State Department.
- To advice the accounting officer on the challenges related to the budget implementation
- To review and recommend the reallocation of payments
- To review and approve the submission of the payment returns, payroll IPPDs, pending bills and A-I-A returns for the State Department and recommend actions to be taken
- To participate in sector working groups
- To review budgets, supplementary estimates and performance of budget against actual for the State Department in consultation with the Heads of Department.

Attendance of the budget committee members

The following shows the number of budget committee meetings held during the year and the attendance of individual members

NO.	NAME	POSITION	28/11/18	30/5/19	Total attendance
1	Alex Ole Nkoyo	Chairperson	✓	✓	2
2.	Momata Gichana	Member	✓	✓	2
3.	Hezekiah Okeyo	Member	✓	✓	2
4.	Nancy Muya	Member	✓	✓	2
5	Julius Njoroge	Member	✓	✓	2
6.	Anthony Mugane	Member	✓	✓	2
7.	Peris Ademi	Member	✓	✓	2

(a) Entity Headquarters

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(a) Entity Contacts

Telephone: 020-2731531-9
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ps.moied@gmail.com
Website: www.industrization.go.ke

(b) Entity Bankers

1. Central Bank of Kenya
   Haile Selassie Avenue
   P.O. Box 60000
   City Square 00200
   Nairobi, Kenya

(c) Independent Auditors

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

(d) Principal Legal Adviser

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

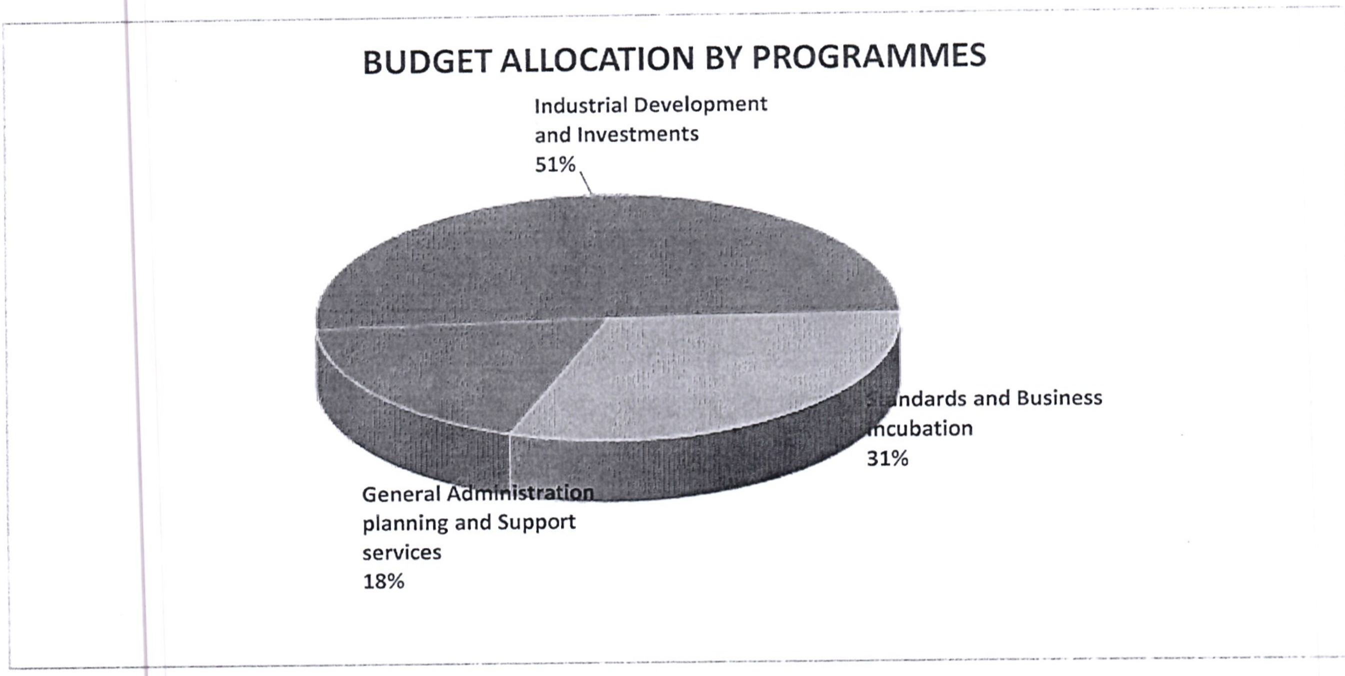
II. FORWARD BY THE CABINET SECRETARY

BUDGET ALLOCATION

In the financial year 2018/19 the State Department for Industralization had a gross budget of **Kshs. 6,620,013,830** which was made up of **Kshs. 3,317,013,830** and **Kshs. 2,993,973,897.1** for recurrent and development budget respectively.

The State Department was to expend the gross budget of **Kshs. 6,620,013,830** under the following three programmes:

Programme/Sub-programme	Original Budget	Adjustments	Final Budget	Actual on comparable basis	Budget utilization difference
	30th June 2019		30th June 2019	30th June 2019	
	Kshs	Kshs	Kshs	Kshs	Kshs
General Administration planning and Support services	1,216,768,260	-	1,216,768,260	903,357,246	313,411,014
Industrial Development and Investments	3,345,988,346		3,345,988,346	2,936,673,040	409,315,306
Standards and Business Incubation	2,057,257,224	-	2,057,257,224	1,773,914,566	283,342,658
TOTAL	6,620,013,830	-	6,620,013,830	5,613,944,852	1,006,068,978

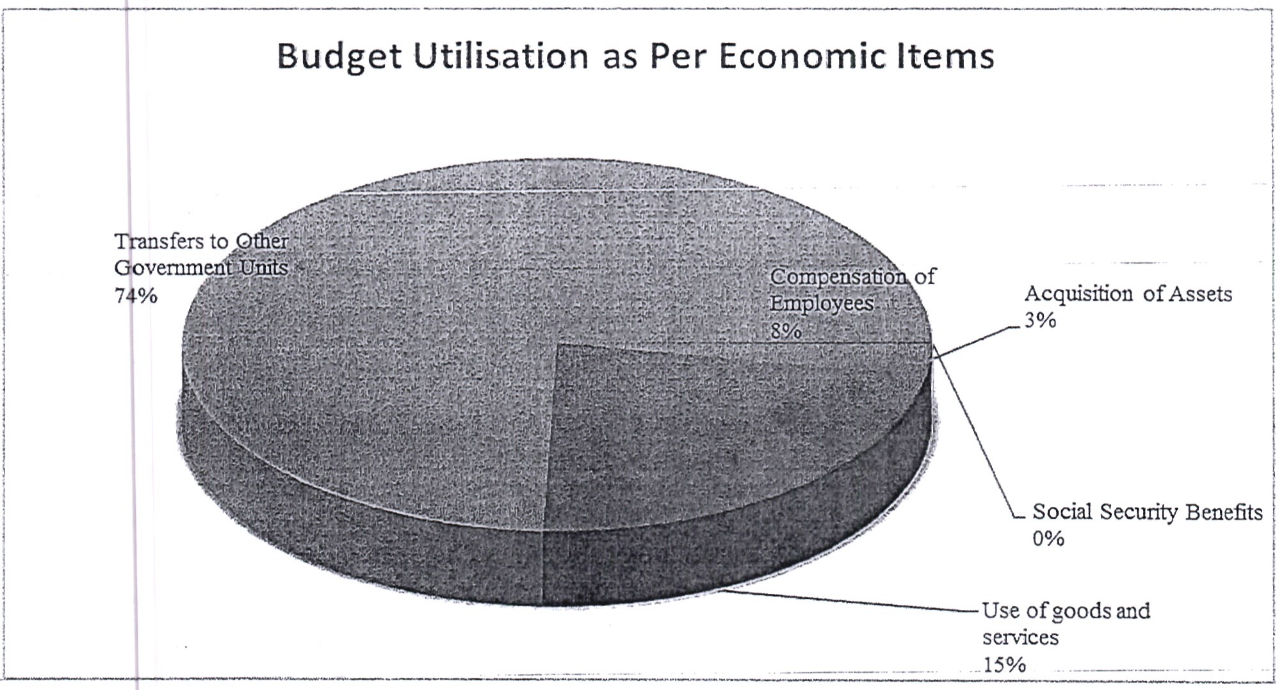


COMMENTARY BY THE CABINET SECRETARY (CONTINUED)

Budget Utilisation (Payments)

The State Department spent **Kshs. 5,610,915,675** against an approved budget of **Kshs. 6,620,013,830** representing absorption of **85%**. Utilisation of the budget was carried out through various activities (economic classifications) as shown in the chart below:

	Approved Budget Allocation	Actual Payments	Variance
Compensation of Employees	434,700,000	441,612,844	- 6,912,844
Use of goods and services	1,193,396,984	847,964,287	345,432,697
Transfers to Other Government Units	4,798,472,000	4,164,881,665	633,590,335
Social Security Benefits	5,900,000	5,900,000	-
Acquisition of Assets	187,544,846	153,586,055	33,958,791
Total Payments	**6,620,013,830**	**5,613,944,851**	**1,006,068,979**



It is noted that 8% of the State Department's budget was utilized on compensation of employees while 15% was utilized on goods and services. Transfer to other Government Units and acquisition of assets accounted for 74% and 3% respectively whereas other grants & transfers and social security benefits for only 0% and 0% respectively.

COMMENTARY BY THE CABINET SECRETARY (CONTINUED)

Key Performance Highlights (Continued)

The Government agenda for industrialization has been advanced through relevant industrial Flagship programmes in the Kenya Vision 2030, Third Medium Term Plan and the Industrialization Road map. In addition, brings on board emerging economic and social objectives of the Jubilee Government outlined in the **"BIG FOUR" DEVELOPMENT AGENDA** where Manufacturing is one of the key pillars of delivery and arguably the most important for job creation because of its strong forward and backward linkages with other sectors in the economy..

The manufacturing pillar seeks to raise the share of the sector contribution to 15 percent of GDP by supporting value addition to accelerate economic growth, create jobs and reduce poverty. The main areas of interest are agro-processing, textiles and apparels, leather processing, foot wear, iron and steel and machinery, furniture and wood, ICT/electronics assembly, auto assembly, construction, pharmaceutical, oil and gas among others.

To ensure that the objective of expanding the sector's contribution to economic growth is realized, there is need to focus on the following key result areas; acquisition of appropriate skills, providing tax incentives, cutting down electricity costs and bringing down cost of raw materials.

However, the manufacturing sector has consistently been allocated an average of 1.4 % share of the overall budget despite the expanded mandate of delivering on the manufacturing pillar of the Big Four agenda. The implication of this kind of scenario is the continued decline in the contribution of manufacturing to GDP. The sector's contribution to GDP over the last five years has been on a downward trend. In 2013, the sector contributed 10.7 % to GDP but this has declined progressively to 7.7 % as at 2018.

To support the textiles sector, the Government seeks to revitalize and develop cotton production using hybrids and BT which have 3 times production yield compared to present conventional varieties, buy domestically grown cotton, improve governance in the import rules for textile products to cushion local producers as well as give incentives to investors to build modern ginneries and textile manufacturing plants. Further, the Government will train 50,000 youths and women to be involved in this sector and establish 5 million square feet of industrial sheds. Successful implementation of these measures is expected to increase revenue from textile industry from USD 350 million to USD 2 billion, create 500,000 cotton jobs and 100,000 new apparel jobs by 2022.

In addition to the above measures, the Government will continue to develop the required industrial infrastructure such as Export Processing Zones (EPZs), modernization of machinery at Rivatex E.A Ltd, development of Special Economic Zones (SEZs) and SME Parks across the country.

Kenya has a huge untapped potential in the leather industry. To support the growth of the leather industry in the country, the Government will ensure that all hides and skins are fully processed locally, train personnel and set up 6,000 cottage industries (cobblers), complete Leather Industrial Park at Kinanie and support expansion of existing tanneries through incentives and access to finance. To cushion local manufacturers, the Government will review import rules for finished leather products with the aim of creating wider market access. This initiative is targeted at creating 50,000 new jobs, make 20 million shoes and increase export revenue by USD 500 million by 2022.

To promote growth of the agro-processing sector, the Government will support value addition to agricultural produce across the value chain. This will involve ***processing tea, coffee, meat, sugar, dairy, fruits and vegetables*** locally in order to obtain more value (Ksh. 535 billion to the GDP) and create an additional 200,000 jobs and wealth for Kenyans. In addition, the Government targets to more than triple the amount of processed agricultural exports worth Ksh. 3 billion and support 1000 food processing SMEs by 2022.

The Special Economic Zones will contribute towards the transformation of the country's economic base in order to realize a higher and sustained growth, employment creation and poverty reduction. SEZs/IPs will provide carefully master-planned integrated industrial parks with developed infrastructural facilities to attract Foreign & Domestic Direct Investments.

Micro, Small and Medium enterprises play a strategic role in contributing to GDP, employment & wealth creation and poverty reduction. The objective is to incubate MSMEs for job and wealth creation. It is expected to generate 1 million direct jobs and contribute Ksh. 212 billion to GDP by 2022.

Provision of affordable medium to long-term finance to SMEs in the manufacturing sector is critical to facilitate their survival and growth. This will involve supporting indigenous entrepreneurs to promote rural industrialization and facilitate graduation of MSMEs to large enterprises. Limited provision of affordable financing is one of the challenges faced by SMEs in the country; and is one of the priorities of The Jubilee Government Manifesto, MTP III and Vision 2030 is providing credit to the SMEs sector to realize its potential.

The SMES will in addition to being provided with affordable source of finance through this project, they will also be provided with incubation facilities, capacity building through Business Development Services and linkages to the market, source of raw materials and machinery.

To enhance the export of our manufactured products, the Government is implementing an elaborate marketing strategy to diversify our export markets including penetrating new markets. This will be alongside exploiting the markets available under Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC) and the tripartite arrangements.

The Vision 2030 identified research, technology and innovation as a key sector to strengthening the SMEs production, productivity and innovation to increase the country's competitiveness. The completion of the Industrial laboratories will provide state of the art facilities for incubating and standards development for SMEs products, value addition in agricultural products, and innovations on industrial machinery and parts.

Iron and steel is the foundation of industrial development as the products from this industry are widely used in all sectors of the economy including the construction industry and infrastructural projects. Development of an integrated iron and steel mill to produce high grade steel for import substitution and commence commercial mining of locally available iron ore, coal & limestone and also attract high value manufacturing industries like automotive industry.

The Numerical Machining Complex (NMC) will promote the manufacture of steel products, industrial spare parts, machinery and equipment for use in several sectors of the economy through value addition and product development.

The development of key areas is anchored on the following strategies:

i. Undertake the value chain approach, diagnose the challenges and work with stakeholders to propose policy intervention which includes incentives and legal framework.
ii. Intensify investment promotion
iii. Addressing the enablers including improved business environment advocacy
iv. Negotiate for market access for manufactured products
v. Promotion of local consumption of locally manufactured goods through initiative such as Buy Kenya Build Kenya policy
vi. Working with stakeholders to promote skills development for the manufacturing sector
vii. Develop industrial infrastructure such as Export Processing Zones (EPZs), Special Economic Zones (SEZs) and industrial parks
viii. Improving access to finance for Industrial development
ix. Partnering with stakeholders on documentation of minerals potential for value addition.
x. Working with County governments for synergy and an enabling environment for industrial growth.

The manufacturing sector is greatly affected by the existence of sub-standards goods and counterfeit goods at the market. The Anti-Counterfeit Authority (ACA) requests other Agencies for a stronger collaboration for effective enforcement throughout all the border points by strengthening the Border Control and Coordination Committees. In addition, more funding is required from the National Treasury to equip and strengthen ACA.

In order to realize these objectives and expand manufacturing sector, the Government will create an enabling environment by implementing various initiatives including: cut the cost of off-peak power to heavy industry by half; review work permit regime and encourage expatriates whose skills support the manufacturing sector; expand infrastructure and land access; enhance of access to quality inputs and markets; protect local manufacturers from counterfeits goods, and enhance affordable medium and long term financing to SMEs.

The State Department have experienced several budgetary cuts which has inhibited full implementation of Projects such as industrial sheds being developed by EPZA for the textile industry; Leather Park by KLDC; and Industrial Technology Centre of Excellence being developed at South 'B' by KIRDI. The State department require support for:

(i) Putting in place structures and implementation of the merger of ICDC, IDB Capital, and Tourism development Fund into Kenya Development Bank;
(ii) Establishing structures and implementation of the merger of the Youth, Women, Uwezo fund and MSEA being merged into Biashara Fund;
(iii) Technical assistance in implementing the policies, programs and strategies;
(iv) Budgetary support in finalizing ongoing infrastructural projects and equipping of the same; and
(v) Aligning, coordinating and harmonizing activities for all the 15 State Corporations for creation of synergies for the realization of the BIG FOUR Agenda.

PROJECTS ACHIEVEMENT STATUS FOR FY 2018/19

PROJECT 1: Industrial Research Laboratories in KIRDI-Kisumu

Location: Kisumu, Kibos Road

The project entails the construction and equipping of industrial research laboratories at KIRDI Kisumu. The Laboratories will be utilized to develop and transfer technologies for value addition to Manufacturing MSMEs, thus contribute to increasing manufacturing contribution to GDP as envisaged in the Big Four Agenda.

Construction of Five (5) blocks which consists of administration and analytical laboratory block, Leather, Food, Natural products and Energy is complete. The Leather laboratory has been equipped and the food laboratory block is 50% equipped. The amount of money required to equip the remaining laboratories is Kshs. 590 Million.

PROJECT 2: Industrial Research Laboratories in KIRDI, Nairobi South B

Location: Nairobi, South B

The project entails the construction of state of the art industrial research facilities that will support stimulation of start-ups, growth and development of industries in Kenya by developing and transferring value addition technologies to MSMEs. This will contribute to increasing the manufacturing sector share to GDP as envisaged in the Big Four Agenda. The building will house ten (10) laboratories, namely: Food (Advanced food and food technology, microbiology and biotechnology), Energy (green energy), Textile, Chemical Engineering (Nanotechnology), ICT, Leather (Leather goods and footwear, CAD/CAM), Environment, Mechanical Engineering (Bioengineering, CAD/CAM and 3D printing), Electrical and Electronics (Robotics), Ceramics and Building materials (Advanced materials science). The building will also have facilities for MSMEs incubation and common manufacturing services.

Construction of the building stands at **63.5%** complete. There has been minimal activities at the project site for the last 3 years due to funding challenges. The total amount spent to date is **Kshs 2.4 Billion** and the amount required to complete the construction is **Kshs. 3.1 Billion.** The Amount required to equip the laboratories is **Kshs 3.5 Billion** of which KIRDI will be able to raise internally 50% of the budget from income from the South B building in a period of five years for equipping.

PROJECT 3: Kenya Leather Park

Location: Kinanie, Machakos

The project is to propel Kenya towards becoming regional leather and leather products manufacturing hub, which leads to wealth creation and employment for Kenyans. The project involves developing appropriate, modern and efficient infrastructure to support an industrial park with a capacity to host a diverse collection of leather, leather products and related manufacturing industries. The park should also offer efficient support and logistical service to ensure local leather products manufacturing is internationally competitive.

Leather Industrial Park in Kenanie, Machakos County is being re-designed after being affected by heavy rains in 2018 when 60% of the land rendered unsuitable. Master plan for the remaining 40% (200 acres) has been initiated and shared with the Department of Public Works for review.

PROJECT 4: Ease of Doing Business
Location: Nairobi

The main aim of the project is to improve the business environment so as to achieve the benefits of ranking in the Ease of Doing Business Indicators and the Global Competitiveness Index which influence investment decisions globally. Improving the Ease of Doing Business in Kenya will stimulate the private sector to expand operations for economic growth, increase contribution of the manufacturing sector to GDP and contribute to the creation of more jobs. With concerted effort in the last three years, Kenya has recorded an impressive ranking of 3rd most improved economy globally having moved 75 places from position 136 to 61 globally in 2019; 3rd in the Ease of Doing Business out of 48 countries in Sub-Saharan Africa (SSA);

Kenya consolidated business reforms for the Doing Business 2019 Report and recorded 6 reforms in the following areas:

(i) Dealing with construction permits: Introduction of the land rent clearance online system in e-citizen that was not affected by the order of the High Court that suspended the implementation of the Lands Information Management System;

(ii) Getting Credit: Through establishment and operationalization of the collateral registry and its respective legal framework

(iii) Protecting minority shareholders: Provision of Section 146 of the revised Companies Act No. 17 of 2015 that provides shareholder requirement to approve related party transactions valued at 10% or more of a Company's assets in effect addressing conflict of interest issues by a Director; extent of a Director's liability; extent of shareholder Rights index; and extent of corporate transparency index amongst others

(iv) Paying Taxes: Collapsing of all business related permits into a single business permit called "unified Business Permit" for businesses operating in Nairobi.

(v) Trading Across Borders: Implementation of the regional electronic cargo tracking system that simplifies procedures at Malaba Border crossing.

(vi) Resolving Insolvency: Adoption of the Insolvency (Amendment)(No.2) Regulations 2018 on the Management of debtor's Assets Index thereby allowing continuation of contract supplying essential goods and services to a debtor.

The mandate to undertake this project has since been moved to Ministry of EAC and Regional Development.

PROJECT 5: Modernization of Foundry and CNC workshop
Location: Nairobi

The Numerical Machining Complex (NMC) being revitalised to manufacture industry parts and accessories, specifically Sugar rollers and its accessories- 20 out of 100 targeted industrial parts manufactured for sugar industry;

Foundry Castings including Cement grinding media balls- 9 tons of foundry castings produced out of 40 tons foundry castings of media balls; Foundry Castings including Manufacture of Automotive parts and SGR parts- 15 ton of foundry castings (trailer undercarriage parts, automotive brake discs) manufactured out of 67 tons foundry castings;

Construct a Hot Dip Galvanizing Plant- has been planned to support fabrication of machinery and parts. This last component is necessary for delivery of the others.

PROJECT 6: Modernization of Rivatex Machinery and Infrastructure
Location: Eldoret

Procurement and installation of modern plant and machinery under the GoK Grant and Line of Credit from Exim Bank of India on-going. Under current operations Tenders for supply of police uniforms has been secured under Buy Kenya Build Kenya Policy. The Production capacity will increase from 10 Bales to 70 Bales of cotton per day, in single shift translating to currently 5,000 Meters per day to 40,000 Meters per day and spinning production capacity will increase from 800kg to 12 tonnes a day. The official commissioning of the fully modernized Rivatex textile factory in Eldoret was commissioned on 22 June 2019 by H.E. the President.

PROJECT 7: Cotton Development - Subsidy and Extension Support
Location: Country Wide

The Ministry formed an Inter-Agency Working Team on Cotton Revitalization in July 2017. Through this Team, Farmers have been mobilized, supplied with seeds and chemicals as subsidy. The area under conventional cotton production in 24 Counties targeted to increase from the current 35,000 acres to 539,000 acres by 2022. Cotton lint expected is approx. 11,000 bales.

The Lower and Upper Eastern regions of Kenya (September-November 2018 planting season), a total of 14,766 farmers and 22,472 Acreage achieved; while Western Kenya region (March-May 2019 planting season) envisages over 60,000 acres. Ministry set up a Fund (Ksh 100 Million) during Financial Years 2017/2018 and 2018/2019 set up a Fund under Rivatex East Africa to guarantee cotton farmers market. Tripatite agreement signed with Ginners, Farmers and Rivatex to purchase the cotton lint.

Phase I of National Performance Trials (NPTs) on Biotechnology (Bt) Cotton completed in 5 sites with positive results. Phase II NPTs launched in February 2019 in 4 sites. The lifting of the ban on GMO including Bt Cotton is anticipated to allow for commercialization of Bt-Cotton upon conclusion of Phase II NPTs.

PROJECT 8: One Stop Shop
Location: Nairobi
KenInvest continued implementing the OSC. During FY 2017/2018, KenInvest established the One Stop Centre. The new offices are now complete with officers from the following institutions; KRA, NEMA, NSSF, NHIF, EPZA, Business Registration Services, Kenya Power, Department of Immigration and Nairobi County Government, nominated and trained .

Project 9: Kenya Youth and Employment Opportunities Project (Component 2 -Support for self-employment) – Donor Funded by World Bank
Project Location: Country wide
The project aims at increasing employment and earning opportunities for targeted youth. Micro Small Enterprises Authority (MSEA) is implementing component two which has two sub-components. Sub-component one is support for job creation through support for self-employed, this has two activities which includes issuance of seed capital inform of a grants to the tune of USD 400 to 30,000 and conducting of Business Development Services (BDS) to 8000 youth interested in starting or improving their business. The activities on issuance of grants include entrepreneurial aptitude test (EAT), orientation and disbursement of grants. Similarly, the activities on BDS includes class room training, coaching, mentorship and counselling which will be both use of digital and non-digital delivery mode. The second sub-component is catalytic interventions for job creation which targets to award youth with high innovations with potential to create jobs for targeted by conducting business plan competition. The activities entails engaging a firm to manage the BPC, training youth on how to develop winning business plans and inviting them to compete and issuing awards to 750 winning business plans. The project contributes to supporting innovations being converted to business idea majority of which are in manufacturing hence highly contribute to GDP as envisaged in the Big Four Agenda.

Pilot of grants was conducted in three pilot Counties i.e. Taita Taveta Counties, Murang'a and Kisii while cycle one was implemented in five Counties including (Nairobi, Mombasa, Nakuru, Kisumu and Kwale). The pilot targeted 30 youth and achieved 24 youths while cycle one targeted 1100 youth to be issued with grants and MSEA issued grants to 1041 youth.

Procurement of business development providers and Business plan competition firm is in progress. The Authority has also procured key furniture and equipment for the project. The Authority still require some vehicles and other key equipment for the project to implement the remaining six cycles smoothly as well as conduct the BPC.

Financing is required to conduct cycle 2, to 7 of both grants and BDS, carry out the management of business plan competition and conduct monitoring and evaluation of the project. Youth were issued with grants to start new businesses totalling to Ksh. 176.42 Million with 6,553 youth accessing grants.

Project 10: Construction and equipping of Constituency Industrial Development Centers (CIDCs)
Location: Country Wide

The establishment of CIDCs was a project under stimulus project and now key delivery under big four and Vision 2030. It entails provision of MSMEs incubation facilities through CIDC in 290 constituencies countrywide. The centers will target but not limited to MSMEs in Agri-business, Manufacturing, Automotive, Mechanical, woodwork, Services and Building Construction sectors among others. The CIDCs will be constructed/upgraded to completion based on the local priorities, local resource endowment and as aligned to the BIG 4.

The CIDC project was a two-phase project. Phase I of the two-phased CIDC project was to construct and equip a 4-roomed typical workshop (each measuring 27 meters square) with gutters for water harvesting, four-door executive pit latrine (toilet) and two-6,000 litres water tanks, drainage. Phase II comprised five additional workshops (3-room typical workshop 50 meters square each, 6-room typical workshop 27 meters square each, 3-room typical workshop 50 meters square each, 2-room open yard, and 2-room typical workshop 100 meters square each); office space; open sheds; two executive pit latrine; and paved display area.

The project aim is to:-

- Promote access to appropriate technology for Micro Small and Medium Entrepreneurs (MSMEs) hence promoting the development of MSEs and job creation.
- Provide decent work environment through provision of infrastructure to MSMEs and grow the cottage industries.
- Address the sectors restricted levels of technology, enhance productivity, improve quality of products and expand products range.
- Enhance MSME Associations capacity to support adaptation and absorptions of modern technology to MSEs and provide information on existing technologies.
- The Equipment will enhance products design and development hence MSME product competitiveness.
- Promoting access to common user machines and equipment expensive to individual MSME to buy as well as used for demonstrations purpose.

The project activities includes construction, equipping, upgrading/refurbishment, fencing, connection three phase power supply, rain water harvesting, drainage, fencing construction of toilet and, access roads.

NB: Previously the project targeted 210 constituencies. Currently we have 290 constituencies

PROJECT 11: Development of Athi River Textile Hub/Textile & Apparel Sector
Location; EPZ Athi River, Machakos

This entails construction of industrial sheds and associated basic infrastructure, enhancement of sector competitiveness through skills training and attracting new investments. One of the objectives under the Textile and Apparel sector is to expand Kenya share of the US$ 84 billion US textile market whose expected outcome is additional Ksh. 14 to 20 billion export generated and over 100,000 jobs. Large Industrial Sheds, 16Nos are 98% complete for 8 units in Cluster 2 & 3 and 90% complete for 8 units in Cluster 1 & 4. The SME Sheds, 8 Nos are 90% complete overall for 4 units and 80% complete overall for remaining 4 units.

- Three companies dealing in textile and apparels i.e. Hela Intimates EPZ Limited, Mas Intimates & JF&I already operational; Tensenses EPZ Limited already operational dealing in agro processing.

- Pharmaceutical companies have also taken up space i.e. B. Brown from Germany already operational and Square Pharmaceuticals from Bangladesh has been allocated 13 acres of land to build their own business premises.
- 40 other investors have submitted their requests to take up space for operations at the Zone.

RECOMMENDATIONS

In order to enhance the State Department contribution and productivity to the economy and to ensure successful implementation of projects planned, it is recommended that:

1. Adequate funding is vital for projects and programmes implementation in the State Department in delivering the Big Four Agenda;
2. The implementation of the flagship projects and programmes require implementation framework and close collaboration among Ministries, Department and Agencies, and the County Governments;
3. Facilitative Legal and regulatory framework is needed to implement and achieve objectives of some of flagship projects/programme;
4. Infrastructural projects needs to be well planned from initial stage and implementation phased in order to reallocate resources;
5. Promotion of micro, small and medium industries through investment in physical facilities and access to affordable long term financing and credit facilities;
6. Mobilization of adequate resources is essential for successful implementation of the projects and programmes; and
7. Public Private Partnership legal framework needs to be strengthened to pave way for private sector to play a key role in the implementation of the programmes especially the flagship projects.

25/09/2019

Cabinet Secretary
Hon. Peter G. Munya, MGH

Date

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

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Anniversary Towers
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON STATE DEPARTMENT FOR INDUSTRIALIZATION FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of State Department for Industrialization set out on pages 1 to 29 which comprise the statement of assets and liabilities as at 30 June, 2019 and the statement of receipts and payments, statement of cash flows, summary statement of appropriation - recurrent and development combined together with a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the State Department for Industrialization as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and complies with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

Unreconciled Cash and Bank Balances

The statement of assets and liabilities as at 30 June, 2019 reflects bank balances amounting to Kshs.39,774,514 for four bank accounts maintained by the State Department and Kshs.135,503 cash in hand as shown under Note 9A and 9B to the financial statements respectively. However, the balances differed with the figures in the revised Trial Balance as summarized below;

Account	Financial Statements Kshs	IFMIS Trial Balance Kshs	Variance Kshs
Recurrent Bank Balance	17,615,086	(45,112,504)	(62,727,590)
Development Bank Balance	13,600,000	305,608,814	292,008,814
Deposit Bank Balance	7,436,572	(23,459,479)	(30,896,051)
Cash in hand	135,503	178,911,327	178,775,824

Management has not explained or reconciled the variances casting doubt on the accuracy of the cash and cash equivalents balance of Kshs.39,910,016 as at 30 June, 2019.

Unresolved Prior Year Matter

Transfer to Other Government Units and Other Grants and Transfers

As previously reported, the statement of receipts and payments for the year ended 30 June, 2018 indicated that the State Department transferred Kshs.3,838,242,202 to other Government units and paid other grants and transfers amounting to Kshs.140,771,700, all totalling to Kshs.3,979,013,902. However, details extracted from the financial statements for the same period of the respective Government units and entities reflected grants received from the State Department totalling Kshs.3,857,791,878 resulting into an unexplained and unreconciled variance of Kshs.121,222,024.

In the absence of reconciliations, it has not been possible to confirm the accuracy of the figure for transfers to other Government units and other grants and transfers as at 30 June, 2018.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the State Department for Industrialization 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 qualified 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. I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1. Pending Bills

Note 15.1 to the financial statements reflects pending bills amounting to Kshs.6,146,291 that were not settled in the year under review but were carried forward to 2019/2020 financial year. Failure to settle bills in the year to which they relate will adversely affect the implementation of the subsequent year's budgeted programmes as the pending bills form a first charge to that year's budget provision.

2. Budgetary Performance and Control

As reflected in the summary statement of appropriation - recurrent and development combined, the State Department for Industrialization had a budgeted revenue of Kshs.6,620,013,830 but received Kshs.5,663,574,763 resulting to under collection of

Kshs.956,439,067 or 14%. Further, the State Department projected to spend the budgeted revenue of Kshs.6,620,013,830 on various budget lines but actually incurred expenditure totalling to Kshs.5,613,944,851 resulting to an overall budget under absorption of Kshs.1,006,068,979 or 15%.

In the circumstances, the State Department may not have implemented all its planned activities creating a negative impact on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES.

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

Responsibilities of Management and 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 (Cash

Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the State Department's ability to continue to sustain 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 dissolve the State Department for Industrialization or to cease operations.

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the State Department's financial reporting process, reviewing the effectiveness of how the entity 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 control 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 control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the sustainability of services, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the State Department'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 State Department of Industrialization to cease 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 express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

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

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

Nancy Gathungu
AUDITOR-GENERAL

Nairobi

06 October, 2020

IV. STATEMENT OF RECEIPTS AND PAYMENTS

	Note	2018/2019 Kshs	2017/2018 Kshs
RECEIPTS			
Transfers from National Treasury	1	5,633,349,526	6,135,132,409
Proceeds from Sale of Assets	2	30,225,237	20,807,670
TOTAL REVENUES		**5,663,574,763**	**6,155,940,079**
PAYMENTS			
Compensation of Employees	3	441,612,844	396,903,236
Use of goods and services	4	847,964,287	748,632,040
Transfers to Other Government Units	5	4,164,881,665	3,838,242,202
Other grants and transfers	6	-	140,771,700
Social Security Benefits	7	5,900,000	23,999,939
Acquisition of Assets	8	153,586,055	66,670,478
TOTAL PAYMENTS		**5,613,944,851**	**5,215,219,594**
SURPLUS/DEFICIT		**49,629,912**	**940,720,485**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on ___________ 2019 and signed by:

DR.FRANCIS O OWINO, PHD
Principal Secretary

CPA Margaret Nyaywera
Head of Accounting Unit
ICPAK Member Number 5429

V. STATEMENT OF ASSETS AND LIABILITIES

	Note	2018/2019 Kshs	2017/2018 Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	9A	39,774,514	906,420,029
Cash Balances	9B	135,503	72,431
Total Cash And Cash Equivalents		**39,910,016**	**906,492,460**
Accounts Receivables - Outstanding Imprest and Clearence Accounts	10	30,529,643	40,453,182
TOTAL FINANCIAL ASSETS		**70,439,660**	**946,945,642**
LESS: FINANCIAL LIABILITIES			
Accounts Payables - Deposits	11	7,436,572	4,832,657
NET FINANCIAL ASSETS		**63,003,088**	**942,112,985**
REPRESENTED BY			
Fund balance b/fwd	12	**942,112,985**	**1,392,500**
Prior year adjustments	13	**(928,739,809)**	**-**
Surplus/Defict for the year		**49,629,912**	**940,720,485**
NET FINANCIAL POSSITION		**63,003,088**	**942,112,985**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on ___________ 2019 and signed by:

DR.FRANCIS O OWINO, PHD
Principal Secretary

CPA Margaret Nyaywera
Head of Accounting Unit
ICPAK Member Number 5429

VI. STATEMENT OF CASH FLOWS

	Note	2018/2019 Kshs	2017/2018 Kshs
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts for operating income			
Transfers from National Treasury	1	5,633,349,526	6,135,132,409
		5,633,349,526	**6,135,132,409**
Payments for operating expenses			
Compensation of Employees	3	441,612,844	396,903,236
Use of goods and services	4	847,964,287	748,632,040
Transfers to Other Government Units	5	4,164,881,665	3,838,242,202
Other grants and transfers	6	-	140,771,700
Social Security Benefits	7	5,900,000	23,999,939
		5,460,358,796	**5,148,549,116**
Adjusted for:			
Changes in receivables		9,923,539	(40,453,182)
Changes in payables		2,603,915	3,233,463
Adjustments during the year	13	(928,739,809)	-
Net cashflow from operating activities		**(743,221,626)**	**949,363,574**
CASHFLOW FROM INVESTING ACTIVITIES			
Proceeds from Sale of Assets	2	30,225,237	20,807,670
Acquisition of Assets	8	(153,586,055)	(66,670,478)
Net cash flows from Investing Activities		**(123,360,818)**	**(45,862,808)**
CASHFLOW FROM BORROWING ACTIVITIES			
Net cash flow from financing activities		-	-
NET INCREASE IN CASH AND CASH EQUIVALENT		**(866,582,444)**	**903,500,766**
Cash and cash equivalent at BEGINNING of the year		**906,492,460**	**2,991,694**
Cash and cash equivalent at END of the year		**39,910,016**	**906,492,460**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on ___________ 2019 and signed by:

DR.FRANCIS O OWINO, PHD
Principal Secretary

CPA Margaret Nyaywera
Head of Accounting Unit
ICPAK Member Number 5429

VII. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED

Revenue/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation Difference to Final Budget
	a	b	c=a+b	d	e=c-d	f=d/c %
RECEIPTS						
Exchequer releases	5,051,539,499	1,483,474,331	6,535,013,830	5,633,349,526	901,664,304	86%
Proceeds from Foreign Borrowings	604,000,000	(550,000,000)	54,000,000	-	54,000,000	0%
Proceeds from Sale of Assets	9,250,000	21,750,000	31,000,000	30,225,237	774,763	98%
Total Receipts	**5,664,789,499**	**955,224,331**	**6,620,013,830**	**5,663,574,763**	**956,439,067**	**86%**
Payments						
Compensation of Employees	200,000,000	234,700,000	434,700,000	441,612,844	(6,912,844)	102%
Use of goods and services	435,517,076	757,879,908	1,193,396,984	847,964,287	345,432,697	71%
Transfers to Other Government Units	4,722,500,000	75,972,000	4,798,472,000	4,164,881,665	633,590,335	87%
Social Security Benefits	1,750,000	4,150,000	5,900,000	5,900,000	-	100%
Acquisition of Assets	305,022,423	(117,477,577)	187,544,846	153,586,055	33,958,791	82%
Grand Total	**5,664,789,499**	**955,224,331**	**6,620,013,830**	**5,613,944,851**	**1,006,068,979**	**85%**
Surplus/Deficit	-	-	-	**49,629,911**	**(49,629,911)**	

Notes

i. Underutilisation in Exchequer releases of 86% was a result of lack of funding by the National Treasury
ii. Underutilisation in Proceeds from domestic borrowings of 0% was a result of delay of the supplementary budget.
iii. Underutilisation of 88% in Proceeds from Sale of Asset was as a result of delay in submission of returns.
iv. Over Utilisation of 102% in Compensation of employees was as a result of change in the supplementary budget.
v. Underutilisation in Transfer to Other Government units of 87% was as a result of late requisition
vi. Underutilisation in Acquisition of Assets of 83% was as a result of long procurement process

The entity financial statements were approved on ____________ 2019 and signed by:

DR.FRANCIS O OWINO, PHD	CPA Margaret Nyaywera 5429
Principal Secretary	Head of Accounting Unit
	ICPAK Member Number

SUMMARY STATEMENT OF APPROPRIATION: RECURRENT

Revenue/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation Difference to Final Budget
	a	b	c=a+b	d	e=d-c	f=d/c %
RECEIPTS						
Exchequer releases	1,357,539,499	1,928,474,331	3,286,013,830	2,611,760,805	674,253,025	79%
Proceeds from Sale of Assets	9,250,000	21,750,000	31,000,000	30,225,237	774,763	98%
Total Receipts	**1,366,789,499**	**1,950,224,331**	**3,317,013,830**	**2,641,986,042**	**675,027,788**	**80%**
PAYMENTS						
Compensation of Employees	200,000,000	234,700,000	434,700,000	441,612,844	(6,912,844)	102%
Use of goods and services	205,517,076	780,879,908	986,396,984	770,725,905	215,671,079	78%
Transfers to Other Government Units	954,500,000	925,972,000	1,880,472,000	1,393,219,059	487,252,941	74%
Social Security Benefits	1,750,000	4,150,000	5,900,000	5,900,000	-	100%
Acquisition of Assets	5,022,423	4,522,423	9,544,846	9,083,146	461,700	95%
Grand Total	**1,366,789,499**	**1,950,224,331**	**3,317,013,830**	**2,620,540,954**	**696,472,876**	**79%**
Surplus/Deficit	-	-	-	**21,445,088**	**(21,445,088)**	

Notes

i. Underutilisation in Proceeds from domestic borrowings of 0% was a result of delay of the supplementary budget.
ii. Underutilisation of 88% in Proceeds from Sale of Asset was as a result of delay in submission of returns.
iii. Over Utilisation of 102% in Compensation of employees was as a result of change in the supplementary budget.
iv. Underutilisation in Transfer to Other Government units of 87% was as a result of late requisition
v. Underutilisation in Acquisition of Assets of 83% was as a result of long procurement process
vi. Underutilisation in Exchequer releases of 86% was a result of lack of funding by the National Treasury

The entity financial statements were approved on ___________ 2019 and signed by:

DR.FRANCIS O OWINO, PHD	CPA Margaret Nyaywera 5429
Principal Secretary	Head of Accounting Unit
	ICPAK Member Number

VIII. SUMMARY STATEMENT OF APPROPRIATION: DEVELOPMENT

Revenue/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation
	a	b	c=a+b	d	e=c-d	f=d/c %
RECEIPTS						
Exchequer releases	3,694,000,000	(445,000,000)	3,249,000,000.00	3,021,588,721	227,411,279	93%
Proceeds from Foreign Borrowings	604,000,000	(550,000,000)	54,000,000	-	54,000,000	0%
Total Receipts	**4,298,000,000**	**(995,000,000)**	**3,303,000,000**	**3,021,588,721**	**281,411,279**	**91%**
Payments						
Use of goods and services	230,000,000	(23,000,000)	207,000,000	75,331,892	131,668,108	36%
Transfers to Other Government Units	3,768,000,000	(850,000,000)	2,918,000,000	2,771,662,606	146,337,394	95%
Acquisition of Assets	300,000,000	(122,000,000)	178,000,000	146,409,399	31,590,601	82%
Grand Total	**4,298,000,000**	**(995,000,000)**	**3,303,000,000**	**2,993,403,897**	**309,596,103**	**91%**
Surplus/Deficit	-	-	-	**28,184,824**	**(28,184,824)**	

Notes

i. Underutilisation in Proceeds from domestic borrowings of 0% was a result of delay of the supplementary budget.
ii. Underutilisation of 36% in goods and services was as a result of long procurement process.
iii. Underutilisation in Acquisition of Assets of 83% was as a result of long procurement process

The entity financial statements were approved on __________ 2019 and signed by:

DR.FRANCIS O OWINO, PHD
Principal Secretary

CPA Margaret Nyaywera 5429
Head of Accounting Unit
ICPAK Member Number

IX. BUDGET EXECUTION BY PROGRAMMES AND SUB-PROGRAMMES

Programme/Sub-programme	Original Budget	Adjustments	Final Budget	Actual on comparable basis	Budget utilization difference
	30th June 2019		30th June 2019	30th June 2019	
	Kshs	Kshs	Kshs	Kshs	Kshs
General Administration planning and Support services	**1,216,768,260**	-	**1,216,768,260**	**903,357,246**	**313,411,014**
General Administration planning and Support services	1,216,768,260	-	1,216,768,260	903,357,246	313,411,014
Industrial Development and Investments	**3,345,988,346**		**3,345,988,346**	**2,936,673,040**	**409,315,306**
Promotion of industrial Development and Investment	2,968,283,187	-	2,968,283,187	2,596,797,386	371,485,801
Promotion of industrial training	377,705,159	-	377,705,159	339,875,653	37,829,506
Standards and Business Incubation	**2,057,257,224**	-	**2,057,257,224**	**1,773,914,566**	**283,342,658**
Standardization,Metrology and conformity Assessments	146,194,116	-	146,194,116	111,870,316	34,323,800
Business financing and Incubation for SMMEs	1,239,355,712	-	1,239,355,712	1,013,307,677	226,048,035
Industrial Research , Development and Innovation	671,707,396	-	671,707,396	648,736,573	22,970,823
TOTAL	**6,620,013,830**	-	**6,620,013,830**	**5,613,944,851**	**1,006,068,979**

(NB: This statement is a disclosure statement indicating the utilisation in the same format at the Entity's budgets which are programme based. Ensure that this document is completed to enable consolidation by the National Treasury)

The entity financial statements were approved on __________ 2019 and signed by:

DR.FRANCIS O OWINO, PHD
Principal Secretary

CPA Margaret Nyaywera 5429
Head of Accounting Unit
ICPAK Member Number

X. SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

1. Statement of Ccompliance and Basis of Preparation

The financial statements have been prepared in accordance with Cash-basis International Public Sector Accounting Standards (IPSAS) as prescribed by the Public Sector Accounting Standards Board (PSASB) and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions.

The financial statements comply with and conform to the form of presentation prescribed by the PSASB. The accounting policies adopted have been consistently applied to all the years presented.

2. Reporting Entity

The financial statements are for the State Department for Industrialization, The financial statements encompass the reporting entity as specified under section 81 of the PFM Act 2012 and also comprise of the following development projects implemented by the entity:

-Kenya Petroleum Technical Assistance Project

3. Reporting Currency

The financial statements are presented in Kenya Shillings (KShs), which is the functional and reporting currency of the Government and all values are rounded to the nearest Kenya Shilling.

4. Significant Accounting Policies

The accounting policies set out in this section have been consistently applied by the Entity for all the years presented.

a) Recognition of Rreceipts

The Entity recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the Entity.

- **Tax Receipts**

Tax receipts are recognized in the books of accounts when cash is received. Cash is considered as received when notification of tax remittance is received. (Check if this policy is applicable to entity)

- **Transfers from the Exchequer**

Transfers from the exchequer are recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving entity.

SIGNIFICANT ACCOUNTING POLICIES

- **External Assistance**

External assistance is received through grants and loans from multilateral and bilateral development partners.

Grants and loans shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary.

In case of grant/loan in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice. A similar recognition criteria is applied for loans received in the form of a direct payment.

During the year ended 30th June 2018, there were no instances of non-compliance with terms and conditions which have resulted in cancellation of external assistance loans.

- **Other receipts**

These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognized in the financial statements the time associated cash is received.

b) Recognition of payments

The Entity recognises all payments when the event occurs and the related cash has actually been paid out by the Entity.

- **Compensation of Employees**

Salaries and wages, allowances, statutory contribution for employees are recognized in the period when the compensation is paid.

- **Use of Goods and Services**

Goods and services are recognized as payments in the period when the goods/services are paid for. Such expenses, if not paid during the period where goods/services are consumed, shall be disclosed as pending bills.

- **Interest on Borrowing**

Borrowing costs that include interest are recognized as payment in the period in which they are paid for.

- **Repayment of Borrowing (Principal Amount)**

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made.

SIGNIFICANT ACCOUNTING POLICIES

- **Acquisition of Fixed Assets**

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment.

A fixed asset register is maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the financial statements.

5. In-kind contributions

In-kind contributions are donations that are made to the Entity in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Entity includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.

6. Third Party Payments

Included in the receipts and payments, are payments made on its behalf to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties in the statement of receipts and payments as proceeds from foreign borrowings.

7. Cash and Cash Eequivalents

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.

Restriction on Cash

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation.

Amounts maintained in deposit bank accounts are restricted for use in refunding third party deposits. As at 30th June 2018, this amounted to Kshs 4,832,657 compared to Kshs 1,599,194 in prior period as indicated on note 13.

There were no other restrictions on cash during the year.

SIGNIFICANT ACCOUNTING POLICIES

8. Accounts Receivable
For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year are treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

9. Accounts Payable
For the purposes of these financial statements, deposits and retentions held on behalf of third parties have been recognized on an accrual basis (as accounts payables). This is in recognition of the government practice of retaining a portion of contracted services and works pending fulfilment of obligations by the contractor and to hold deposits on behalf of third parties. This is an enhancement to the cash accounting policy adopted by National Government Ministries and Agencies. Other liabilities including pending bills are disclosed in the financial statements.

10. Pending Bills
Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the Entity at the end of the year. When the pending bills are finally settled, such payments are included in the Statement of Receipts and Payments in the year in which the payments are made.

11. Budget
The budget is developed on a comparable accounting basis (cash basis except for imprest and deposits, which are accounted for on an accrual basis), the same accounts classification basis, and for the same period as the financial statements. The original budget was approved by Parliament on June 2018 for the period 1st July 2018 to 30th June 2019 as required by Law and there were two supplementary adjustments to the original budget during the year.

A comparison of the actual performance against the comparable budget for the financial year under review has been included in the financial statements.

Government Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers.

12. Comparative Figures

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

SIGNIFICANT ACCOUNTING POLICIES

13. 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 30th June 2018.

14. Errors

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i. restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

During the year, errors that have been corrected are disclosed under note 26 explaining the nature and amounts.

15. Related Party Transactions

Related party relationships are a normal feature of commerce. Specific information with regards to related party transactions is included in the disclosure notes.

XI. NOTES TO THE FINANCIAL STATEMENTS

1. EXCHEQUER RELEASES

Description	2018/2019 Kshs	2017/2018 Kshs
Total Exchequer Releases for quarter 1	493,132,935	653,054,414
Total Exchequer Releases for quarter 2	1,283,808,726	953,936,055
Total Exchequer Releases for quarter 3	2,020,023,550	1,065,833,140
Total Exchequer Releases for quarter 4	1,836,384,315	3,462,308,800
TOTAL	**5,633,349,526**	**6,135,132,409**

2. PROCEEDS FROM SALE OF ASSETS

	2018/2019 Kshs	2017/2018 Kshs
Receipts from the Sale of Inventories, Stocks and Commodities	30,225,237	20,807,670
TOTAL	**30,225,237**	**20,807,670**

3. COMPENSATION OF EMPLOYEES

	2018/2019 Kshs	2017/2018 Kshs
Basic salaries of permanent employees	254,512,874	261,397,636
Basic wages of temporary employees	187,099,970	135,505,600
TOTAL	**441,612,844**	**396,903,236**

4. USE OF GOODS AND SERVICES

			2018/2019 Kshs	2017/2018 Kshs
Utilities, supplies and services			32,967,278	12,279,369
Communication, supplies and services			7,445,208	4,312,434
Domestic travel and subsistence			82,070,564	70,996,134
Foreign travel and subsistence			37,827,158	27,775,214
Printing, advertising and information supplies & services			35,216,238	1,307,300
Rentals of produced assets			117,406,273	120,058,323
Training expenses			29,258,777	43,812,969
Hospitality supplies and services			28,514,840	32,395,130
Specialised materials and services			100,705,601	26,942,062
Office and general supplies and services			34,907,926	9,763,281
Other operating expenses			298,145,779	382,997,728
Routine maintenance – vehicles and other transport equipment			12,777,966	7,033,582
Routine maintenance – other assets			15,781,901	8,006,395
Fuel Oil and Lubricants			14,938,778	952,120
TOTAL			**847,964,287**	**748,632,040**

5. TRANSFER TO OTHER GOVERNMENT ENTITIES

Description	2018/2019 Kshs	2017/2018 Kshs
Transfers to National Government entities		
(SCOA Codes 2630100, 2630200, 2640400, 2640500, 2649900, 2820100, 2820200, 2820300)	1,393,219,059	1,339,832,131
See attached list	2,771,662,606	2,498,410,071
TOTAL	**4,164,881,665**	**3,838,242,202**

The above transfers were made to the following self-reporting entities in the year:

Description	Recurrent Kshs	Development Kshs	2018/2019 Kshs
Transfers to SAGAs and SCs			
Kenya Leather Development Council	53,635,204	400,000,000	453,635,204
Numerical Machining Complex Limited	135,905,616	50,000,000	185,905,616
Kenya Industrial Research and Develoment	535,707,396	110,000,000	645,707,396
Export Processing Zones Authority	3,270,456	820,000,000	823,270,456
Kenya Accredition Services	108,651,816	-	108,651,816
Kenya Investment Authority		-	

- Pharmaceutical companies have also taken up space i.e. B. Brown from Germany already operational and Square Pharmaceuticals from Bangladesh has been allocated 13 acres of land to build their own business premises.
- 40 other investors have submitted their requests to take up space for operations at the Zone.

RECOMMENDATIONS

In order to enhance the State Department contribution and productivity to the economy and to ensure successful implementation of projects planned, it is recommended that:

1. Adequate funding is vital for projects and programmes implementation in the State Department in delivering the Big Four Agenda;
2. The implementation of the flagship projects and programmes require implementation framework and close collaboration among Ministries, Department and Agencies, and the County Governments;
3. Facilitative Legal and regulatory framework is needed to implement and achieve objectives of some of flagship projects/programme;
4. Infrastructural projects needs to be well planned from initial stage and implementation phased in order to reallocate resources;
5. Promotion of micro, small and medium industries through investment in physical facilities and access to affordable long term financing and credit facilities;
6. Mobilization of adequate resources is essential for successful implementation of the projects and programmes; and
7. Public Private Partnership legal framework needs to be strengthened to pave way for private sector to play a key role in the implementation of the programmes especially the flagship projects.

25/09/2019

Cabinet Secretary
Hon. Peter G. Munya, MGH

Date

8. ACQUISITION OF ASSETS

			2018/2019 Kshs	2017/2018 Kshs
Refurbishment of Buildings			5,674,496	2,809,682
Construction and Civil Works			146,409,399	-
Purchase of Office Furniture and General Equipment			1,502,160	3,934,788
Purchase of Specialised Plant, Equipment and Machinery			-	21,090,700
Rehabilitation and Renovation of Plant, Machinery and Equip.			-	15,000
Research, Studies, Project Preparation, Design & Supervision			-	38,820,308
Sub Total			153,586,055	66,670,478
TOTAL			153,586,055	66,670,478

9A. BANK ACCOUNTS

Name of Bank, Account No. & currency	Amount in bank	Indicate whether	Exc rate (if in foreign	2018/2019	2017/2018
				Kshs	Kshs
Central Bank of Kenya, 1000384484,KShs	ksh	Reccurent	-	17,615,086	18,291,146
Central Bank of Kenya, 1000384514,KShs	ksh	Development	-	13,600,000	883,296,226
Central Bank of Kenya, 1000384506,KShs	ksh	Deposit	-	7,436,572	4,832,657
Central Bank of Kenya, 100397144,KShs	ksh	Project KIEP		1,122,856	-
Total				39,774,514	906,420,029

9B. CASH IN HAND

	2018/2019 Kshs	2017/2018 Kshs
Cash in Hand – Held in domestic currency	135,503	72,431
TOTAL	**135,503**	**72,431**

Cash in hand should also be analysed as follows:

	2018/2019 Kshs	2017/2018 Kshs
Headquarters, Nssf Building, Cashoffice	135,503	72,431
TOTAL	**135,503**	**72,431**

10. OUTSTANDING IMPRESTS

Description			2018/2019 Kshs	2017/2018 Kshs
Government Imprests			587,212	2,155,100
District suspense			29,942,431	38,298,082
TOTAL			30,529,643	40,453,182

11. ACCOUNTS PAYABLES

			2018/2019 Kshs	2017/2018 Kshs
Deposits			7,436,572	4,832,657
TOTAL			7,436,572	4,832,657

12. BALANCES BROUGHT FORWARD

			2018/2019 Kshs	2017/2018 Kshs
Bank accounts			906,420,029	2,991,694
Cash in hand			72,431	-
Receivables - Outstanding Imprests			40,453,182	-
Payables - Deposits			(4,832,657)	(1,599,194)
TOTAL			942,112,985	1,392,500

These are the fund balances that were brought forward from FY 2017/18. The bank balances were however taken back by exchequer as shown in note 13

13. PRIOR YEAR ADJUSTMENTS

PRIOR YEAR ADJUSTMENTS Description of the error			2018/2019 Kshs	2017/2018 Kshs
Adjustments on bank account balances			(906,420,029)	-
Adjustments on cash in hand			(72,431)	-
Adjustments on payables			4,832,657	-
Adjustments on receivables			(40,453,182)	-
KEPTAP Project			13,373,176	
TOTAL			**(928,739,809)**	-

The prior year adjustments relate to bank balances that were swept back to exchequer at the beginning of the year. Adjustment on receivables and payables relate to imprest and AIEs issued and surrendered as expenses in the current year but relate to the prior year. Further ksh.13,373,176 relates to KEPTAP payments that related to KEPTAP balance brought forward incurred this year in the IFMIS System.

14. RELATED PARTY DISCLOSURES

	2018/2019 Kshs	2017/2018 Kshs
Transfers to other State Corporations and Semi-Autonomous Government Agencies	4,164,881,665	3,838,242,202

15. OTHER IMPORTANT DISCLOSURES

15.1 PENDING ACCOUNTS PAYABLE (See Annex 1)

			2018/2019 Kshs	2017/2018 Kshs
Construction of buildings			-	-
Construction of civil works			-	-
Supply of goods			-	15,886,610
Supply of services			6,146,291	1,949,403
TOTAL			**6,146,291**	**17,836,013**

15.2 PENDING STAFF PAYABLES (See Annex 2)

			2018/2019 Kshs	2017/2018 Kshs
Senior management			-	-
TOTAL			-	-

15.3 OTHER PENDING PAYABLES (See Annex 3)

			2018/2019 Kshs	2017/2018 Kshs
Amounts due to third parties			7,436,572	4,832,657
TOTAL			**7,436,572**	**4,832,657**

16. PROGRESS ON FOLLOW UP OF PRIOR YEARS AUDITOR'S RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor for 2017/2018.

Reference No. on the external audit Report	**Issue / Observations from Auditor**	**Management comments**	**Focal Point person to resolve the issue *(Name and designation)***	**Status: *(Resolved / Not Resolved)***	**Timeframe: *(Put a date when you expect the issue to be resolved)***
1	**Accounts Receivables – Outstanding Imprests and Clearance Accounts**	The amount of kshs 38,298,082 that appeared under note 12 of 2017/2018 relate to imprest issued to county industrial development officers in the former districts that had not been responded as at 30th June 2018. During the year ended 30th June 2019, the imprests were surrendered and the surrender documents availed for audit review.		**Resolved** as per adopted PAC's report dated 4th June 2019	
2	**Transfer to Other Government Units and Other Grants and**	The variance of Kshs 121,222,024which was noted in the audit report for 2017/2018 is being		Not resolved	

	Transfers	investigated. A response will be given before the completion of audit			
3	**Cash and Cash Equivalents**	During the year 2018/2019, the Ministry prepared all the bank reconciliation and cleared all the errors that the IFMIS ledger. As a result, a prior year adjustment of Kshs 928,739,809 was passed through journal entries which have been availed for your audit, This query therefore has been addressed by the said journal entries and cash and cash equivalent figure as at 30 June 2019 supported by the updated bank reconciliation statements.		**(The issue has been addressed)** The Ministry prepared and updated all bank reconciliations and corrected all errors by passing journal entries and prior year adjustment in 2018/19 financial statements	
4	**Restatement of Opening Balances - Construction and Civil Works and Rehabilitation of Civil Works**	The issue raised was addressed through the journal entries explained under (iii) above. It is important to note that the error was noted in the opening balances and did not affect the financial statements since the Ministry uses IPSAS (Cash basis) of accounting in preparing of financial statements.		**Resolved** as per adopted PAC's report dated 4th June 2019	

5	**Pending Bills**	All the pending bills for 2017/2018 were cleared during 2018/2019 and 2019/2020. Therefore, there is no historical pending bills not paid. All documents are available for audit review.		**Resolved** as per adopted PAC's report dated 4th June 2019	
1.1, 1.2, 1.3 2 and 3	**Other Matter** **Other Unresolved Matters in the Report for 2016/2017** The following audit queries were dropped/resolved by the public accounts committee of Parliament that was adopted by the national assemble on 4th June 2019. 1.1 Procurement of consultancy services 1.2 Ease of doing Business Improvement Programme Phase II 1.3 Irregular consultancy	**1. Irregular procurement practices** 1.1 Procurement of consultancy services 1.2 Ease of doing Business Improvement Programme Phase II 1.3 Irregular consultancy		**Resolved** as per adopted PAC's report dated 4th June 2019 Parliament referred the matter to relevant investigative agency as per section 198(1)o of PFM Act,2012 **Resolved** as per adopted PAC's report dated 4th June 2019	

	contract	contract			
	2. Irregular reallocation from Development grants to recurrent grants 3. **Textile and leather working machinery and equipment**	2. Irregular reallocation from Development grants to recurrent grants 3. **Textile and leather working machinery and equipment.** The query was failure to avail commissioning certificate for audit review. This has since been cleared. The commissioning certificate was availed when the Ministry was attending PAC meeting at Parliament for 2016/17 audit		**Resolved** as per adopted PAC's report dated 4th June 2019 **Resolved** as per adopted PAC's report dated 4th June 2019	

Principal Secretary

Principal Account's Controller

ANNEX 1 - ANALYSIS OF PENDING ACCOUNTS PAYABLE

Supplier of Goods or Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance 20XX	Outstanding Balance 2019	Comments
Supply of services						
1. PRIMAL VENTURES	490,000.00				490,000.00	No Lpo
2. ABLETEC SOLUTIONS	236,640.00				236,640.00	User defined exception
3. MARAMOS ROYAL ENTERPRISES	161,280.00				161,280.00	Late submission of documents
4. AFRICAN TOUCH SAFARIS	3,907,211.00				3,907,211.00	Late submission of documents
5. KENYA SAFARI AND HOTEL LTD	348,000.00				348,000.00	No pin certificate
6. KENYA SCHOOL OF MONETARY STUDIES	348,000.00				348,000.00	No pin certificate
7. MACHAKOS AGRICULTURAL TRAINING	76,300.00				76,300.00	Supplier has no pin
8. SUNBEAM COMPUTERS	537,500.00				537,500.00	Bank branch missing
9. CHIEF MECHANICAL AND TRANSPORT	41,360.00				41,360.00	No bank details
Sub-Total	**6,146,291.00**				**6,146,291.00**	
Grand Total	**6,146,291.00**				**6,146,291.00**	

ANNEX 2 – SUMMARY OF FIXED ASSET REGISTER

Asset class	Historical Cost b/f (Kshs)	Additions during the year (Kshs)	Disposals during the year (Kshs)	Historical Cost c/f (Kshs)
Buildings and structures	41,629,990	152,083,895	-	193,713,885
Office equipment, furniture and fittings	3,934,788	1,502,160	-	5,436,948
Other Machinery and Equipment	21,105,700		-	21,105,700
Total	**66,670,478**	**153,586,055**	-	**220,256,533**

NB: The balance as at the end of the year is the cumulative cost of all assets bought and inherited by the Ministry, Department or Agency. Additions during the year should tie to note 8 on acquisition of assets during the year. Ensure this section is complete covering all the entities assets)

ANNEX 3 – LIST OF PROJECTS IMPLEMENTED BY THE STATE DEPARTMENT FOR INDUSTRIALIZATION

Ref	Project Name	Principal activity of the project	Accounting Officer	Project consolidated in these financial statements(yes/no)
1	KEPTAP	Technical Assistance on Local content of Petroleum Affairs.	Betty C. Maina	No
2	KIEP	To increase innovation and productivity in selected private sector firms	Betty C. Maina	NO.

ANNEX 4 – LIST OF SCs, SAGAs AND PUBLIC FUNDS UNDER THE STATE DEPARTMENT FOR INDUSTRIALIZATION

Description	Recurrent Kshs	Development Kshs	2018/2019 Kshs
Transfers to SAGAs and SCs			
Kenya Leather Development Council	53,635,204	400,000,000	453,635,204
Numerical Machining Complex Limited	135,905,616	50,000,000	185,905,616
Kenya Industrial Research and Develoment	535,707,396	110,000,000	645,707,396
Export Processing Zones Authority	3,270,456	820,000,000	823,270,456
Kenya Accredition Services	108,651,816	-	108,651,816
Kenya Investment Authority	195,318,900	-	195,318,900
Kenya Industrial Estates Limited	245,284,200	300,000,000	545,284,200
Micro And Small Enterprises Authority	106,360,871	261,662,606	368,023,477
Rivertex East Africa Limited	-	830,000,000	830,000,000
Special Economic Zone	9,084,600	-	9,084,600
TOTAL	**1,393,219,059**	**2,771,662,606**	**4,164,881,665**

ANNEX 5- REPORTS GENERATED FROM IFMIS

The following financial Reports Generated from IFMIS should be generated and attached as appendices to these financial statements.

i. GOK IFMIS Comparison Trial Balance
ii. FO30 (Bank reconciliations) for all bank accounts
iii. GOK IFMIS Receipts and Payments Statement
iv. GOK IFMIS Statement of Financial Position
v. GOK IFMIS Statement of Cash Flows
vi. GOK IFMIS Notes to the Financial Statements
vii. GOK IFMIS Statement of Budget Execution
viii. GOK IFMIS Statement of Deposits
ix. GOK IFMIS Budget Execution by Programme and Economic Classification
x. GOK IFMIS Budget Execution by Heads and Programmes
xi. GOK IFMIS Budget Execution by Programmes and Sub-programmes