

REPUBLIC OF KENYA



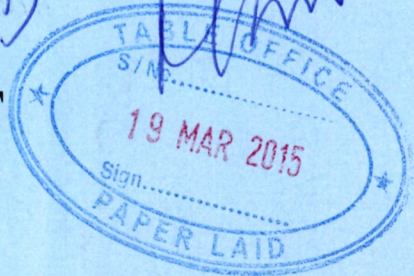
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*Paper Laid by Hon. A. Duale, MP,
(Lom) on 19.3.2015.*

REPORT



OF

KENYA NATIONAL AUDIT OFFICE

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
EXPORT PROMOTION COUNCIL

FOR THE YEAR ENDED
30 JUNE 2014



EXPORT PROMOTION COUNCIL

ANNUAL REPORT AND FINANCIAL STATEMENTS

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

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

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KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

The Export Promotion Council was incorporated on 6 June 1994 as a Company limited by guarantee and not having a share capital. Prior to this, and since its establishment, the Council has operated as an independent body deriving its right of existence from the Statement on Export Strategy for Growth by H. E The President of Kenya dated 19 August 1992 which established the Council and Gazette Notice No. 4342 of 9 October 1992.

At cabinet level, the Export Promotion Council is represented by the Cabinet Secretary for East African Affairs, Commerce and Tourism who is responsible for the general policy and strategic direction of the Export Promotion Council.

(b) Principal Activities

The mandate of promoting exports, through strategic assistance to producers of exportable goods and services in overcoming bottlenecks, to enable them achieve a higher level of export performance. The national mandate therefore requires the Council to facilitate export development in a holistic manner and to appropriately respond to the current need of exporters.

Vision

To excel in positioning Kenya's goods and services as products of choice in the regional and international markets.

Mission

To attract, expand and sustain the market share of Kenya's exports through product identification, development and marketing.

Strategic Objectives

- To increase Kenya's exports of goods and services by an average of 20% per year over the plan period.
- To take the lead role in facilitating export trade
- To continuously ensure the sustainability of EPC's resource base
- To deliver outstanding services

The principal activity/mission of the *entity* is to ...

(c) Key Management

The Council's day-to-day management is under the following key organs:

- Chief Executive
- General Managers
- Unit heads;

Fiduciary Management

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

No.	Designation	Name
1.	Chief Executive	Ms. Ruth Mwaniki
2.	General Manager Finance	Ms. Christine Mwaka
3.	General Manager, Market Development and Promotion	Mr. Maurice Abuom
4.	General Manager, Research and Planning	Mr. Maurice Otieno
5.	General Manager, Trade Information and Business Services	Mr. Kenneth Murimi
6.	General Manager, Enterprise and Product Development	Mrs. Lucy Waithaka

(d) Fiduciary Oversight Arrangements

Strategy and Market Development Committee

The Committee is responsible for monitoring the implementation of the strategic plan, negotiation, monitoring implementation and reporting of the performance contract.

Finance and Resource Mobilization

The Committee reviews the Council's annual budget and is responsible for the financial policies of the Council.

Audit, Risk and Governance Committee

The Committee is responsible for reviewing audit reports, compliance with relevant laws, procedures and standards, quality of financial reporting, risk management oversight, governance issues and oversight on internal controls among others.

Human Resource and Administration Committee

The committee is responsible for monitoring and appraising the performance of Senior Management, reviewing human resource policies, approval of remuneration policy for employees, and making recommendations on Senior Management appointments to the Board



(e) Entity Headquarters

Export Promotion Council (Headquarters)
Anniversary Towers 1st and 16th Floor
University Way
P. O. Box 40247 – 00100 Nairobi
Tel: +254-20-2228534-8
Office Mobile: +254-722-205875, +254-734-228534
Fax: +254 -20-2228539/
Email: chiefexe@epc.or.ke
Website: www.epckeny.org

Branches

EPC Regional Office Mombasa
Uni Plaza, 3rd Floor
Aga Khan Road, off Moi Avenue
P.O. Box 90143- 80100 Mombasa
Tel: +254-041-2319247/020-3579237
Email: coast@epc.or.ke

EPC Regional Office Eldoret
National Bank Building, 2nd Floor
Oloo Street
P.O. Box 853 Eldoret
Tel: +254 -20-3573020/3573758
Email: western@epc.or.ke

JKIA Liaison Office
Jomo Kenyatta International Airport (JKIA)
International Arrivals, 1st Floor
Tel: +254-20 -827911
Fax: +254-20-822913
Email: jkia@epc.or.ke

(f) Entity Contacts

Export Promotion Council (Headquarters)
P. O. Box 40247 – 00100 Nairobi
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Email: coast@epc.or.ke

EPC Regional Office Eldoret
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Tel: +254 -20-3573020/3573758
Email: western@epc.or.ke

JKIA Liaison Office
Tel: +254-20 -827911
Fax: +254-20-822913
Email: jkia@epc.or.ke

(g) Entity Bankers

Kenya Commercial Bank Limited
University Way Branch
P.O. Box 7206 - 00100
Nairobi

Housing Finance Limited
Rehani House
P.O. Box 20691 - 00100
Nairobi

Co-operative Bank of Kenya
University Way Branch
P.O.Box 60800 – 00200
Nairobi

(h) Independent Auditors

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

(i) Principal Legal Adviser

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

CORPORATE GOVERNANCE STATEMENT

Corporate governance is the process and structure used by the Council to direct and manage its business affairs. This enables the Council to enhance corporate performance, prosperity, and accounting and to achieve long term value to government taking cognizance of the interest of other stake holders. This statement sets out the main corporate governance practices and structures in the Council.

The Board of Directors of the Export Promotion Council (EPC) is responsible for the governance of the Council and is accountable to the government and stakeholders in ensuring compliance with the relevant laws governing its operation, best practice and the highest standards of business ethics. Accordingly the Directors attach great importance to the need to conduct the business and operations of the Council with integrity, professionalism and has embraced the internationally developed principles and code of best practice of good corporate governance.

Board of Directors

The Board's responsibilities are broadly set in the Board Charter. The Charter further outlines the core commitment required of members of the Board to discharge their mandates. It ensures the effectiveness of each Director's contribution in the governance of the Council by facilitating full and free exercise of independent judgment and professional competencies. The Board comprises of eight (8) directors three (3) of whom are drawn from the private sector and five (5) are from the public sector. The Board defines the Council's strategies, objectives and values. They also ensure that procedures and policies are set in place to ensure effective control over strategic, financial, operational and compliance issues. Except for policy guidance and direction the Board delegates authority of its day – to – day business to the Management through the Chief Executive. It is none the less responsible for the stewardship of the Council and assumes responsibilities for the effective control over the Council.

Board Meetings

The Board holds regular meetings while special meetings are called when it is deemed necessary to do so. The Board held four (4) regular meetings and special meetings during the year under review. The Inspector General of State Corporations from time to time attends meetings of the Board and Board Committees for oversight and advisory purposes in accordance to the State Corporation Act. All the non- executive Directors of the Board are independent of Management and free from any business relationship that could materially interfere with the exercise of their independent judgment. In addition each Director is obligated to disclose to the Board any real or potential conflict of interest, which comes to his/her attention, whether directly or indirectly.

Board Effectiveness



Committees of the Board

The Board has set up the following principal Committees which meet under well-defined terms of reference set by the Board. This is intended to facilitate efficient decision making of the Board in carrying out its duties and responsibilities.

a) Strategy and Market Promotion Committee

The Committee is responsible for monitoring the implementation of the strategic plan, negotiation, monitoring implementation and reporting of the performance contract.

The membership of the Committee is comprised as follows:

Bramwel Simiyu - Chairman
Mohammed Merali
Gabriel Kaunda
Wellington Lubira
Cyrille Nabutola

The Committee held four (4) regular meetings and special meeting in the year under review

b) Human Resources & Administration Committee

The committee is responsible for monitoring and appraising the performance of Senior Management, reviewing human resource policies, approval of remuneration policy for employees, and making recommendations on Senior Management appointments to the Board.

The membership of the Committee is comprised as follows:

Bramwel Simiyu – Chairman
Mohammed Merali
Peter Rotich
Gabriel Kaunda
Alois Nderi – Chairman upto 31st December, 2013

The Committee held four (4) regular meetings and special meetings in the year and review

c) Finance and Resource Mobilization

The Committee reviews the Council's annual budget and is responsible for the financial policies of the Council.

The membership of the Committee is comprised as follows:

Mohammed Merali – Chairman
Gabriel Kaunda
Peter Rotich

Bramwel Simiyu
Alois Nderi – Chairman upto 31st December, 2013

The Committee held four (4) regular meetings and special meetings in the period under review.

d) Audit, Risk and Governance Committee



The Committee is responsible for reviewing audit reports, compliance with relevant laws, procedures and standards, quality of financial reporting, risk management oversight, governance issues and oversight on internal controls among others.



The membership of the Committee is comprised as follows:


Mohammed Merali – Chairman
Gabriel Kaunda
Peter Rotich
Bramwel Simiyu
Moses Ikiara
Daniel Kihiko – Chairman upto 20th October, 2013



The Committee held four (4) regular meetings in the period under review.

THE BOARD OF DIRECTORS



Director	Director profile
<p>Mr. Hudson Aluvanze</p>  <ul style="list-style-type: none"> • Institute of Directors of Kenya • Computer Society of Kenya • (Pursuing) PhD in Strategy & Business Management • MSc – Computer Science • BSc – Computer Science 	<ul style="list-style-type: none"> • DOB: 09/09/1965 • Over 20 years' experience in organizational management, strategic planning, business process reengineering, project design and management, gained while working with local, regional and international institutions. • Director, EPC for 9 years and currently serving as Chairman • CEO, centre for Strategic Development, since 2011
<p>Mr. Bramwell Simiyu</p>  <ul style="list-style-type: none"> • <i>(Pursuing) MSc in Entrepreneurship</i> • Executive Masters in Business Administration • Bachelor of Arts 	<ul style="list-style-type: none"> • DOB: 08/11/1973 • 16 years' experience in consultancy on entrepreneurial projects targeting funding and support to SMEs based on EU-ACP support models.



Director	Director profile
<p>Mohamed Merali</p>  <ul style="list-style-type: none"> • Chartered Certified Accountant (ACCA) • GCE (Ordinary Level) 	<ul style="list-style-type: none"> • DOB: 12/11/1946 • Over 40 years' private practice in family business in the fields of shipping, commodity and construction. • Board member in EPC for two years.
<p>Mr. Alois Nderi</p>  <ul style="list-style-type: none"> • MA (International Economics & Finance) • BA (Economics) 	<ul style="list-style-type: none"> • DOB: 12/11/1946 • Director in EPC for 6 years (since 2007) and chair of several Board Committees • Managing Director of Triple 9 Associates Ltd since 1994, involving production and value-added processing in coffee and fruits; • Financial consultancy and mortgage management
<p>Mr. Daniel Kihiko</p> <ul style="list-style-type: none"> • Diploma in Banking • (Pursuing) Bachelor of Laws (LLB) • KACE (3P, 1S) 	<ul style="list-style-type: none"> • DOB: • Director in EPC for 3 years (since 2010); • Director, Dancourt Group of Hotels and real estate • Senior manager in the banking industry on imports/exports facilitation and credit management.


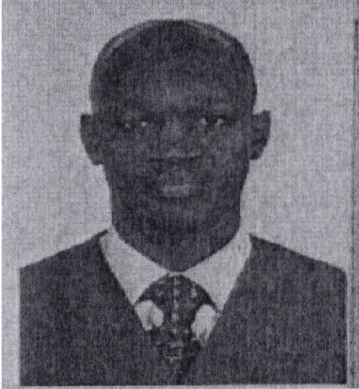
Director	Director profile
<p>Ms. Ruth Mwaniki</p>  <ul style="list-style-type: none"> • Pursuing Masters' in Law (LLM) • Masters in Public Policy and Administration • Bachelors of Law (LLB) • Diploma in Law (Kenya School of Law) 	<ul style="list-style-type: none"> • DOB: 04/02/1966 • Chief Executive Export Promotion Council since January 2011 to date • Worked in various public sector organizations in senior positions and serving as CEO for 10 years
<p>Mr. Anthony Muriu</p>	<ul style="list-style-type: none"> • Alternate to the Principal Secretary , State Department of Commerce and Tourism
<p>Mr. Gabriel Kaunda</p>	<ul style="list-style-type: none"> • January 2014 to date : Alternate to the Principal Secretary , State Department of Commerce and Tourism
<p>Mr. Wellington Lubira</p>	<ul style="list-style-type: none"> • Alternate to the Principal Secretary , Ministry of Agriculture, Livestock and Fisheries
<p>Mr. Peter Rotich</p>	<ul style="list-style-type: none"> • Alternate to the Governor, Central Bank of Kenya

Director	Director profile
<p>Dr. Moses Ikiara</p>  <ul style="list-style-type: none"> • PHD(Environmental Sciences and Natural Resource Economics) • Master of Arts (Economics) • Bachelor of Science (Agriculture) 	<ul style="list-style-type: none"> • DOB: 03/09/1965 • 2013 to date: Managing Director Kenya Investment Authority • 2006 to 2012: Executive Director (KIPPRA) • 2005 to 2006: Ag. Executive Director (KIPPRA) • 2003-2005: Senior Analyst & Programme Coordinator KIPPRA • 2000-2003: Policy Analyst (KIPPRA)
<p>Mr. Cyrille Nabutola</p>  <ul style="list-style-type: none"> • Masters in Business Administration (Strategic Management) 	<ul style="list-style-type: none"> • DOB: 22/05/1959 • 2012 to date: Managing Director EPZA • 1997 to 2012: Managing Director (Nation Media Group, Span Image, Gemster International) • 1982 to 1997: Senior Management (G4s, Total Kenya, Nation Media)

MANAGEMENT TEAM

Profile of Key Managers	Main area of responsibility without details
<p>Ms. Ruth Mwaniki</p>  <ul style="list-style-type: none"> • Pursuing Masters Degree in Law (LLM) • Masters in Public Policy and Administration • Bachelors of Law (LLB) • Diploma in Law (Kenya School of Law) • ICPSK 	<ul style="list-style-type: none"> • Chief Executive • Providing overall strategic direction for achievements of the Council's mandate
<p>Ms. Christine Mwaka</p>  <ul style="list-style-type: none"> • CPA (K), • Pursuing PHD, (Course work complete) 	<ul style="list-style-type: none"> • General Manager Finance • Financial Management and Accountability

Profile of Key Managers	Main area of responsibility without details
<ul style="list-style-type: none"> • MBA - Finance Option • Bachelor's Degree Economics 	
<p>Mr. Maurice Otieno</p>  <ul style="list-style-type: none"> • Pursuing PHD, (Course work complete) • MBA • BA (Hons) Econ; B. Phil. Econ. (planning) 	<ul style="list-style-type: none"> • General Manager - Market Development and Promotion • Coordination of market development and promotion activities
<p>Mrs. Lucy W. Waithaka</p>  <ul style="list-style-type: none"> • MSc Agronomy/Horticulture • BSc Agriculture 	<ul style="list-style-type: none"> • General Manager – Enterprise and Product Development

Profile of Key Managers	Main area of responsibility without details
<p>Mr. Kenneth Kahuthu Murimi</p>  <ul style="list-style-type: none"> • Pursuing, Executive Masters in Business Administration • Bachelor of Commerce (B. Com.) 	<ul style="list-style-type: none"> • Ag. General Manager – Trade Information and Business Counselling Services Department
<p>Mr. Victor Odindo</p>  <ul style="list-style-type: none"> • CPA (K), CISA • Master of Commerce (Forensic Accounting) • Bachelor of Commerce (Finance) 	<ul style="list-style-type: none"> • Internal Audit, Risk Management & Quality Management Representative

CHAIRMAN'S STATEMENT

I am pleased to present Export Promotion Council's Financial Statements for the year ended 30th June 2013. The period under review was marked by challenges in the domestic arena and international markets that constrained growth of exports. As a result, overall exports declined by 3 per cent. However, ongoing reforms by Government, continued implementation of *the Kenya Vision 2030* economic blue print, ongoing trade negotiations, the discovery of coal, oil and other rare earth, declining cost of energy, and most important, implementation of EPC's Strategic Plan 2012-2017, ensures faster growth in the exports to the region and international markets. The challenges include slow recovery in the Euro zone, shocks emanating from security concerns in the country relating to terror activities and significant declines in international prices for Kenya's exports, namely, tea, coffee and horticultural produce all of which continue to manifest minimal value addition. The international scene remained sluggish due to lower global real GDP growth of 3 percent as opposed to the projected 3.1 per cent. However, Sub-saharan Africa and the East African Community region experienced growth rates of 5.0 and 6.1 per cent respectively and is anticipated to continue growing due to strong internal and external demands.

Total exports declined by 3 per cent from KES 517, 847 million in 2012 to KES 502, 287 million in 2013 on account of depressed demand for domestic exports. In the converse, imports increased by 2.8 per cent from KES 1, 374,587 million in 2012 to KES 1, 413, 316 million in 2013. It means that only 35.5 per cent of the import Bill could be financed by total exports in 2013 compared to 37.7 in 2012.

Africa was the main destination for Kenyan exports in 2013, accounting for 46.1 percent of total exports. The exports were valued at KES 231,474 million in 2013, down from KES 250,589 million in 2012. Uganda and Tanzania were the top export markets, absorbing KES 65, 362 million and KES 40, 496 million worth of exports respectively. Exports to European countries accounted for 24.6 per cent. Exports to Asia and the America have remained significant.

During the year under review, the Council continued to work closely with international Donors and national partners in implementing the Country's export agenda reflected in its Strategic Plan 2012-2017. The agenda aims at creating employment and generating wealth and the much needed foreign exchange for Kenya's development through linkage of Kenyan enterprises to global markets through implementation of the National Export Market Development Programme. The Council implements its activities through key pillars including Enterprise and Product Development, Market Development and Promotion, Research, Planning and Trade Policy Facilitation, Trade Information and Business Counselling Services, through which we endeavour to reach our clients through our website and regional offices currently based in Mombasa at the Coast and Eldoret town in the North Rift.

The Council continued to build capacity of Kenyan exporters through export training activities, product development and business counselling. Linkages and sensitization in the nascent county government's administration and business communities is being established to kick-start the huge potential for exports there-in. The Council conducted market surveys and feasibility studies to establish the country's distribution infrastructure and to enhance competitiveness of Kenya's exports in various regions. During the period under review the Council initiated efforts to establish the first warehouse for Kenyan goods in Kinshasa, the Democratic Republic of Congo, through collaborative efforts with the Ministry of East African Affairs, Commerce and Tourism, the State Law Office, Kenya National Trading Corporation and Kenya Embassy in Kinshasa, among other institutions. It is hoped that this process will be progressed in the near future to help maintain market presence of Kenyan products chiefly in the regional markets. Gathering of market intelligence



Export Promotion Council

was also strengthened through surveys carried out in key potential markets, including Angola and DR Congo. The United Arab Emirates and South Sudan markets were surveyed earlier and reports disseminated to export stakeholders through appropriate forums. Launching of major promotion activities was initiated in the researched markets albeit on a limited scale due to budgetary constraints. Two successful solo exhibitions were held in both Kinshasa and Lubumbashi in the DR Congo, followed by business forums for Congolese and Kenyan business community. The solo exhibitions prompted strong demand for Kenyan products in the DR market, indicators of good potential for increased trade between the two countries. It's worth noting that Kenya Airways, launched freighter services that stand to boost Kenya's trade with the region. Bilateral negotiations are underway to sign a trade agreement between Kenya and DR Congo in order to increase economic relations between the two countries, particularly trade and investment. During the period under review, an initiative to restructure State Corporations and merge others was launched. The Council has, as a result of this initiative, lost several technical staff. However, owing to a freeze in employment by the Government, such parastatals have not been able to replace staff that left, leading to fewer technical staff.

The Council is working with Development partners, chiefly Commonwealth Secretariat (COMSEC) to boost export of services, through strengthening of the Association of Professional Services in East Africa (APSEA). Kenya has great potential for services export, particularly to the region. We are also collaborating with the COMSEC, International Transport Union and the United Nations Commission for Europe to explore feasibility of implementing International Road Transport Carnet (TIR) in the country. If successfully implemented in Kenya and the region, the system will greatly boost trade in the region and beyond.

Finally, I would like to thank the Management team and staff of EPC for their good performance and call upon them to continue with the high degree of dedication displayed during the period under review. That way, the Council can continue to spearhead improved performance of Kenya's export sector with great results. I commend my fellow Directors in the Board and the Chief executive for their dedication and trust that together, we will continue to provide the necessary oversight, guidance and support to management to propel EPC to achieve its medium and long-term objectives. We are prepared to take Kenya's export sector to the next level, given necessary budgetary and administrative support and the goodwill of the business community.

Hudson Aluvanze
CHAIRMAN

REPORT OF THE CHIEF EXECUTIVE OFFICER

The Export Promotion Council is a Trade Support Institution established by Government in 1992 to spearhead export performance and related activities. The Council was established to primarily assist exporters and producers of export goods to overcome bottlenecks in order to achieve higher levels of export performance and foreign exchange earnings, thereby enhancing economic growth.

EPC Partnering with Government

As an agency of Government, the Council works with stakeholders at all levels of the value chain to ensure achievement of the supply and demand deliverables in export trade. During the Financial Year 2013-2014, the Council commenced the second year on implementation of its Strategic Plan 2012-2017. The objectives of the Strategic Plan are:

1. To increase Kenya's exports of goods and services by an average of 20% per year over the plan period;
2. To take the lead role in facilitating export trade;
3. To continuously ensure the sustainability of the export sector.
4. To deliver outstanding service.

The Strategic Plan is modelled against the Kenya Vision 2030, with activities that complement the efforts of Government in achieving the targets of the Vision. In this respect, the Council participated in development of the Medium Term Plan (MTP) II 2013-2017 that is currently guiding Government in rolling out programmes intended to help achieve the Vision.

In addition, the Council continued to play an active role in key panel discussions such as the East African integration, Economic Partnership Agreement (EPA), African Growth and Opportunities Act (AGOA) and other forums held locally and internationally aimed at securing the economic interests of the country. The Council also continued to initiate dialogue with County Governments in an effort to build export competitiveness in the devolved Governments.

During the Financial Year, the Presidential Taskforce on Reform of Parastatals was commissioned. The Report of the Taskforce came up with a number of recommendations, among them, the merger of certain Parastatals. The aim was to remove duplications in mandate on Parastatals engaged in similar functions, and establish more efficient institutions through a gradual reform process. The Export Promotion Council is among the institutions earmarked for merger, and the Organization has made its submissions to the Taskforce so that the critical role of exports under the above strategic thrust is not diluted in the merger process. A number of projects in the Council's work-plan for the year could also not be carried out due to the legal implications involved following a freeze imposed by Government on contractual commitments and hiring of staff by Parastatals earmarked for merger.

The Importance of Exports to the Economy

Exports are critical in achieving the socio-economic development goals of countries, Kenya included. Production of export goods and services is the means through which employment is created, thereby addressing many of the social ills such as crime, poverty, disease and illiteracy. It also enables the country to benefit from technology and skill transfer that creates internal competitiveness in production of preferred goods and services in tandem with evolving consumer tastes and preferences. The role of the Council is

therefore to mainstream Small and Medium Enterprises (SMEs) into the export chain through entrepreneurial skills training, export coaching, export awareness and product development. The Council subsequently assists the exporters in identifying markets through test-marketing in select destinations in the world. To sustain these efforts, the Council has developed a concept paper on establishment of a Centre for Product Design and Development (CPDD), for review and consideration by Government to unlock funding in setting up the Centre.

The product development strategy is also informed by the need to reduce Kenya's over-reliance on traditional commodity exports that are prone to price volatility in international markets. The strategy seeks to enhance diversification of products through value addition towards creation of a long-lasting impact in the country through increased gains and brand equity.

Challenges in Export Performance

A number of challenges hampered growth of exports during the period. According to the International Monetary Fund, the global economy was projected to grow at 3.7% during the calendar year 2013. On the contrary, world trade and international business witnessed extreme volatility, leading to a decline in the projected growth. This was mainly felt in the high income countries of Western Europe and member-states to the Organization of Economic Cooperation and Development (OECD) that dominate imports and exports of goods and services in the global economy. Developing countries rely on Western Europe and OECD countries for exports of their goods, the bulk of which are in raw commodities form. This meltdown created reciprocal effect to the economies of developing countries such as Kenya. Exports of Kenyan tea and horticultural products to these markets, the leading foreign exchange earners, were greatly affected by these challenges, a matter that the Government has been addressing at multilateral level.

Another factor that contributed to the low performance of growth was the escalation of oil prices arising from the crisis in the North Africa and Middle East who are the major producers of the commodity in the world market. Petroleum prices are known to affect the performance of the other sectors of the economy considering that oil is the key source of energy, and therefore a major catalyst in economic growth. This was felt through a steep rise in prices of essential goods, high interest rates, inflation and high costs of transport that on the overall reduced Kenya's productivity as well as competitiveness of our exports.

Mitigating the Challenges through Market Development and Consolidation

To contain this situation, the Council has continued to partner with Government in implementing the country's export growth strategy that focuses on the Intra-African market. In 2010, trade among African countries accounted for approximately 10%, while trade within the European Union stood at over 85%. During the same year, Africa's GDP stood at US\$ 1.6 trillion, compared to USA whose GDP stood at US\$ 14 trillion. There is therefore great potential that is yet to be tapped in Africa, the reason why the Council has focused on Intra Africa trade as a quick win in export growth.

The Council has been conducting market surveys in select markets that hold great potential for Kenya's goods and services, namely; the Republic of South Sudan, Democratic Republic of Congo, Angola and the United Arab Emirates. Similar surveys have been commissioned in Ethiopia and Nigeria. Through the surveys, the Council obtains crucial data and insights that are disseminated to stakeholders to enable them venture decisively into the markets. The surveys are expected to bring out the export potentials that exist in the target market, market entry requirements, market dynamics including tastes and preferences, tariff and non-tariff barriers, bilateral arrangements, infrastructure and support networks, and challenges likely to be faced by Kenyan exporters venturing into such markets. The surveys are expected to highlight any emerging issues that will promote export growth, including the establishment of distribution channels for promotion of our exportable products, where applicable. In May, 2014, the Council held a Solo Exhibition in the city of

Lubumbashi where over 25 companies and SMEs showcased their products and discussed export deals with their Congolese counterparts. A similar Exhibition had earlier been held in Kinshasa on February 2013, which efforts that have led to commencement of cargo freight services between Nairobi and Lubumbashi operated by our national carrier, Kenya Airways. The Council also participated in Annual Trade Fairs in Kampala, Dar-es-Salaam, Kigali, Mbeya and Ndola. The activities are among those featured in the National Export Market Development Programme on our website, which is compiled with input of different economic sectoral panels, to facilitate development and consolidation of markets globally.

Kenya is a net importer with a huge trade deficit that continues to choke our economy, and the above efforts that the Council is spearheading are aimed at arresting this deficit and free substantial portions of our foreign exchange to cater for development expenditure.

Ongoing Programmes

During the Year, the Council continued to partner with Government and other strategic partners in fast-tracking various projects that are intended to enhance Kenya's export competitiveness both at the regional and international levels. Key among them are:

1. In conjunction with the Commonwealth Secretariat (COMSEC) and the International Road Transport Union (IRU), the TIR (Transport Internationaux Routiers) Carnet, which is a road and rail transport system that facilitates efficient movement of cargo from the origin to destination through an electronic tracking and security system;
2. In conjunction with the Commonwealth Secretariat (COMSEC) and the Association of Professional Societies in East Africa (APSEA), on rolling out trade in services, a platform that will encourage and enable recognition of trade in intangible exports within and outside East Africa;
3. In conjunction with Government, Kenya's participation to Expo 2015 Milano, Italy, which will run from 1st May to 31st October, 2015;
4. Establishment of a virtual product and trade information centre;
5. In conjunction with Government of Kenya and the International Trade Centre, rolling out of the Strategy on Rejuvenation of Kenya's Exports;
6. In conjunction with Government, establishment of warehouses and distribution infrastructure in Kinshasa, DR Congo;
7. In conjunction with Government, establishment of warehouses and distribution infrastructure in Juba, South Sudan;
8. In conjunction with Government, establishment of a Trade Centre in Dubai, United Arab Emirates (UAE);
9. In conjunction with Government, conclusion of bilateral agreements with the Republic of Angola to enable increased trade between the two countries;
10. In conjunction with Government and international development partners, establishment of a Centre for Product Design and Development (CPDD);

11. In conjunction with County Governments, the Integrated County Approach, where the Council is establishing export competitiveness in the devolved Governments through value addition of agricultural and mineral resources;
12. Market Survey in the Federal Republic of Nigeria;
13. Market Survey in the Republic of Ethiopia.

Appreciation

I take this opportunity to thank the Ministry of East African Affairs, Commerce and Tourism, the mother Ministry that has continued to offer unparalleled support to the Council in execution of programme activities. I also extend appreciation to our stakeholders for their active participation in the export market development programmes that have registered great success in the East African Region, the rest of Africa and other emerging international markets. Finally, I commend the staff of the Council, whose commitment has ensured accomplishment of scheduled activities in wake of existing and emerging challenges.



Ruth Mwaniki
CHIEF EXECUTIVE OFFICER

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 (3) of the Public Finance Management Act, 2012 and the State Corporations Act, require the Directors to prepare financial statements in respect of that Council, which give a true and fair view of the state of affairs of the Council at the end of the financial year and the operating results of the Council for financial year ending 30th June, 2014. The Directors are also required to ensure that the Council keeps proper accounting records which disclose with reasonable accuracy the financial position of the Council. The Directors are also responsible for safeguarding the assets of the Council/

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

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

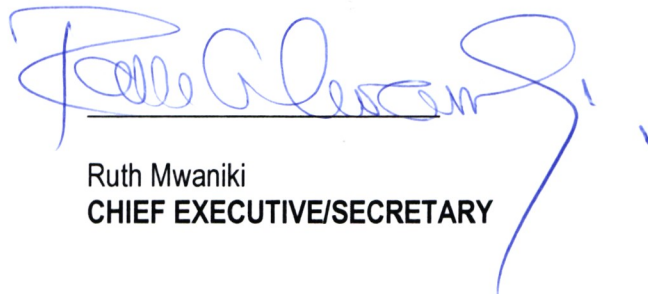
Nothing has come to the attention of the Directors to indicate that the Council will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Council's financial statements were approved by the Board on 29th September 2014 and signed on its behalf by:



Hudson Aluvanze
CHAIRMAN



Ruth Mwaniki
CHIEF EXECUTIVE/SECRETARY

REPUBLIC OF KENYA

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NAIROBI HUB
P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON EXPORT PROMOTION COUNCIL FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Export Promotion Council set out on pages 26 to 45, which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, statement of changes in net assets, statement of comparison of budget and actual amounts and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

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

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

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

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

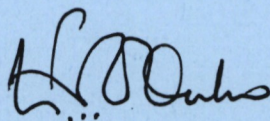
Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Council as at 30 June 2014, and of its financial performance and its cash flows for the year then ended in accordance with the International Public Sector Accounting Standards (Accrual Basis) and comply with the Companies Act, Cap 486 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenya Companies Act, I report based on my audit, that:

- i. 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;
- ii. In my opinion, proper books of account have been kept by the Council, so far as appears from my examination of those books; and,
- iii. The Council's statement of financial position and statement of comprehensive income are in agreement with the books of account.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

23 February 2015

REPORT OF THE INDEPENDENT AUDITORS

**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30TH JUNE 2013/ 2014**



	Note	2014 KShs	2013 KShs
INCOME			
Grants Received		538,010,247	408,876,798
Deferred Income	8	<u>(123,357,810)</u>	_____
	9	414,652,437	408,876,798
COST RECOVERIES	10	<u>8,692,354</u>	<u>5,588,120</u>
		<u>423,344,791</u>	<u>414,464,918</u>
EXPENSES			
Administrative expenses	11	109,814,327	107,020,667
Staff Costs	12	117,908,959	110,577,389
Directors emoluments	13	13,705,853	14,232,602
Other operating expenses	14	<u>180,380,588</u>	<u>177,494,020</u>
TOTAL EXPENSES		<u>421,809,727</u>	<u>409,324,677</u>
UNUTILIZED AMOUNT FOR THE YEAR	15	1,535,064	5,140,241
TOTAL UNUTILIZED AMOUNT FOR THE YEAR		<u>1,535,064</u>	<u>5,140,241</u>

**STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30TH JUNE 2013/ 2014**



	General Fund KShs	Restated Total Reserves KShs
Year ended 30th June, 2013		
At 1 st July 2012	43,497,225	43,497,225
Surplus for the year	<u>5,140,241</u>	<u>5,140,241</u>
Balance as at 30th June 2013	<u>48,637,466</u>	<u>48,637,466</u>
Year ended 30th June 2014		
Balance B/F (As at 1 st July 2013)	48,637,466	48,637,466
Capitalized Fixed Asset (Server)	11,180,000	11,180,000
Surplus for the Year	<u>1,535,063</u>	<u>1,535,063</u>
Balance as at 30th June 2014	<u>61,352,529</u>	<u>61,352,529</u>

**STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 30TH JUNE 2013/ 2014**



	2014	2013
	Kshs	Kshs
Surplus/ (Deficit) for the year	1,535,064	5,140,241
Adjustments for:-		
Depreciation of equipment and motor vehicles	10,813,904	6,646,146
Amortisation	391,619	455,873
Gain/ (Loss) on disposal of equipment		(1,532,200)
Operating surplus before working capital changes	12,740,587	10,710,060
Accounts receivables	718,050	(3,026,742)
Accounts payables	<u>127,120,032</u>	<u>20,194,206</u>
Net Cash flows utilized in operating activities	<u>140,578,669</u>	<u>27,877,524</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,939,000)	(8,534,326)
Proceeds from sale of equipment	-	3,956,950
Net cash flows utilized in investing activities	(1,939,000)	(4,577,376)
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>138,639,669</u>	<u>23,300,148</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	80,099,297	56,799,149
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>218,738,966</u>	<u>80,099,297</u>

**STATEMENT OF COMPARISON OF BUDGET
AND ACTUAL AMOUNTS - FY 2013/ 2014**



	Original Budget	Adjustment	Final Budget	Actual on Comparison Basis	Performance Difference
	2013-2014 KShs	2013-2014 KShs	2013-2014 KShs	2013-2014 KShs	2013-2014 KShs
Revenue					
Government Grants and Subsidies					
Recurrent Vote	356,191,420	0	356,191,420	356,191,420	0
Development Vote	155,000,000	26,475,202	128,524,798	128,524,798	0
Costs Recoveries	<u>8,692,354</u>	<u>0</u>	<u>8,692,354</u>	<u>8,692,354</u>	<u>0</u>
Total Income	<u>519,883,774</u>	<u>26,475,202</u>	<u>493,408,572</u>	<u>493,408,572</u>	<u>0</u>
Expenses					
Compensation of employees	118,248,959	0	118,248,959	117,908,959	340,000
Directors emoluments	14,065,853	0	14,065,853	13,705,853	360,000
Administrative expenses	110,204,327	0	110,204,327	109,814,327	390,000
Other Operating expenses	<u>180,825,652</u>	<u>0</u>	<u>180,825,652</u>	<u>180,380,588</u>	<u>445,064</u>
	<u>423,344,791</u>	<u>0</u>	<u>423,344,791</u>	<u>421,809,727</u>	<u>1,535,064</u>

1. Statement of compliance and basis of preparation – IPSAS 1

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

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

2. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions – IPSAS 23

Fees

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

Transfers from other government entities

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

ii) Revenue from exchange transactions – IPSAS 9

Rendering of services

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

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

Interest income

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

b) Budget information – IPSAS 24

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

c) Taxes – IAS 12

Current income tax

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

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

d) Investment property – IPSAS 16

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2013/ 2014**



Transfers are made to or from investment property only when there is a change in use

e) Property, plant and equipment – IPSAS 17

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

Property and equipment are stated at cost, less accumulated depreciation and any impairment losses. Depreciation is calculated to write off the cost of property and equipment in equal annual installments at the following rates:

Furniture and fittings	12.5%
Office equipment	20%
Motor vehicles	25%
Computer equipment	25%

f) Leases – IPSAS 13

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

g) Intangible assets – IPSAS 31

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

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

h) Financial instruments – IPSAS 29

Financial assets

Initial recognition and measurement

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

Loans and receivables

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

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Council has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

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

- The debtors or a entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization

- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial liabilities

Initial recognition and measurement

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

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

Loans and borrowing

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

IPSAS 29.65

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

i) Inventories – IPSAS 12

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

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

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

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

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

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

j) Provisions – IPSAS 19

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

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

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

Contingent liabilities

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

Contingent assets

The Council does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

k) Nature and purpose of reserves

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

l) Changes in accounting policies and estimates – IPSAS 3

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

m) Employee benefits – IPSAS 25

Retirement benefit plans

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

n) Foreign currency transactions – IPSAS 4

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

o) Borrowing costs – IPSAS 5

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

p) Related parties – IPSAS 20

The Council regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the senior managers.

r) Cash and cash equivalents

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

s) Comparative figures

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

t) Significant judgments and sources of estimation uncertainty – IPSAS 1

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

State all judgements, estimates and assumptions made: e.g

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 36.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2014**



3. PROPERTY, PLANT AND EQUIPMENT

	Office Equipment KShs	Computer Equipment KShs	Furniture and Fittings KShs	Motor Vehicles KShs	Total KShs
Cost					
At 1 July, 2012	20,576,396	23,174,708	26,593,696	26,158,212	96,503,012
Additions	1,613,372	298,508	823,446	5,799,000	8,534,326
Disposal	-	-	(227,600)	(3,729,350)	(3,956,950)
AT 30th June, 2013	22,189,768	23,473,216	27,189,542	28,227,862	101,080,388
Additions	31,000	-	1,908,000	-	1,939,000
Restatement of Server	-	11,180,000	-	-	11,180,000
AT 30th June, 2014	<u>22,220,768</u>	<u>34,653,216</u>	<u>29,097,542</u>	<u>28,227,862</u>	<u>114,199,388</u>
Depreciation					
1 st July, 2012	17,042,790	19,193,657	21,289,521	12,061,255	69,587,222
Charge for the year	1,182,921	1,076,191	927,419	3,459,614	6,646,146
Disposal	-	-	(22,850)	(1,509,350)	(1,532,200)
At 30th June, 2013	18,225,711	20,269,848	22,194,090	14,011,519	74,701,168
Depreciation	1,181,762	3,908,834	1,055,569	4,667,739	10,813,904
At 30th June, 2014	<u>1,181,762</u>	<u>3,908,834</u>	<u>1,055,569</u>	<u>4,667,739</u>	<u>10,813,904</u>
Net book Values					
At 30 June 2014	<u>2,813,295</u>	<u>10,474,534</u>	<u>5,847,883</u>	<u>9,548,603</u>	<u>28,684,316</u>
At 30 June 2013	<u>3,964,057</u>	<u>3,203,368</u>	<u>4,995,452</u>	<u>14,216,343</u>	<u>26,379,220</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2014**



4. INTANGIBLE ASSETS	2014	2013
	KShs	KShs
COST		
Balance B/F	9,031,378	9,031,378
Additions	-	-
At 30th June	<u>9,031,378</u>	<u>9,031,378</u>
AMORTISATION		
Balance B/F	7,983,326	7,527,453
Charge for the year	391,619	455,873
At 30th June	<u>8,374,945</u>	<u>7,983,326</u>
NET BOOK VALUE	<u>656,433</u>	<u>1,048,052</u>
 5. ACCOUTS RECEIVABLES		
Staff Receivables	5,577,155	2,629,142
Prepayments	<u>3,258,984</u>	<u>6,925,048</u>
	<u>8,836,139</u>	<u>9,554,190</u>
 6. RESERVES		
General Fund (Unrestricted)		
Balance B/F	48,637,466	43,497,225
Unutilized amount for the Year	1,535,063	<u>5,140,241</u>
Capitalized Fixedasset (Server)	<u>11,180,000</u>	
At 30th June	<u>61,352,529</u>	<u>48,637,466</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2014**



7. ACCOUNTS PAYABLE

Deferred Income (See note 8)	123,357,810	-
Payables	17,305,600	39,514,615
Due to Staff Gratuity Scheme	1,176,644	2,221,023
Staff Leave Pay Provision	<u>2,478,101</u>	<u>1,707,655</u>
	<u>144,318,155</u>	<u>43,443,293</u>

8. DEFERRED INCOME

Rent for Warehouse facilities in Kinshasa	34,735,591	-
Market Research in Nigeria	12,920,137	-
National Exporters Forum	14,760,053	-
Enterprise Resource Planning and Portal	7,648,000	-
EXPO 2015, Milan	11,542,265	-
Risk Management	1,191,722	-
Website Development	2,604,410	-
Customer Relationship Management	2,000,000	-
Upgrade of Financial Management System and subscriptions	8,137,561	-
Performance contracting survey activities	1,818,071	-
EPC Marketing Documentary	12,000,000	-
Purchase of utility vehicles for the field offices	<u>14,000,000</u>	-
Total	<u>123,357,810</u>	<u>-</u>

The Council received two circulars one from The National Treasury on expenditure control measures which stopped procurement commitments and suspension of tender committees during the final quarter of the year. The other circular was on parastatal reforms which directed that parastatals earmarked for reforms should avoid new acquisition of assets. Therefore due to the foregoing the Council had to defer the above funds for utilization in the next financial year.

9. GRANTS RECEIVED

Grants received from:		
The Government of Kenya	538,010,247	406,070,990
Other donors		2,805,808
Deferred Income (See note 8)	<u>(123,357,810)</u>	
	<u>414,652,437</u>	<u>408,876,798</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2014**



10. COST RECOVERIES

Sundry income	1,353,609	1,290,570
Participation fees from trade fairs	4,604,000	3,719,114
Training income	324,130	264,725
Income from Centre for Business Information	34,990	15,920
Interest income from Bank deposits	2,375,625	297,791
	<u>8,692,354</u>	<u>5,588,120</u>

11. ADMINISTRATIVE EXPENSES

Office rent and rates	19,354,870	17,147,862
Travelling expenses	6,721,344	7,574,643
Medical expenses	11,207,937	11,317,933
Depreciation	10,813,904	6,646,146
Recruitment and training	7,860,858	11,646,129
Telephone	3,564,228	4,549,996
Printing and stationery	5,068,855	2,641,718
Motor vehicle expenses	3,205,906	3,163,508
Repairs and maintenance	4,053,780	3,829,481
Insurance	2,075,521	1,840,792
Postal and internet expenses	2,234,185	1,783,716
Legal and professional fees	1,710,269	1,921,176
Subscriptions	137,160	460,868
Newspapers and magazines	1,094,180	921,400
Auditors' remuneration	328,860	328,860
Amortisation of intangible assets	391,619	455,873
Club subscriptions	1,083,665	945,946
Entertainment expenses	264,455	490,765
Catering and cleaning	2,948,148	2,601,214
Loss on disposal of Assets	-	1,156,886
Staff Welfare Fund	25,000,000	25,000,000
Bank charges	694,583	595,756
	<u>109,814,327</u>	<u>107,020,667</u>

12. STAFF COSTS

Salaries and wages	104,023,828	97,905,600
Contribution to staff schemes	11,618,004	11,570,292
Group Life Insurance	986,595	960,097
Social Security Costs	144,200	141,400
Court Award	1,136,332	-
	<u>117,908,959</u>	<u>110,577,389</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2014**



13. DIRECTORS EMOLUMENTS		
Directors emoluments	<u>13,705,853</u>	<u>14,232,602</u>
	<u>13,705,853</u>	<u>14,232,602</u>
14. OTHER OPERATING EXPENSES		
Expo expenses	2,890,215	21,545,641
Fairs and exhibitions	115,496,811	73,339,077
Trade promotion and publicity	53,343,920	56,944,735
Advertising	1,144,651	913,880
JICA Capacity Building	-	1,029,919
International Organization for Standardization (ISO) Certification	443,454	413,784
CBIK expenses	5,812,874	16,765,210
Strategic evaluation review	<u>1,248,663</u>	<u>6,541,775</u>
	<u>180,380,588</u>	<u>177,494,020</u>
15. UNUTILIZED AMOUNT FOR THE YEAR		
The unutilized amount for the year is after charging:		
Depreciation	10,813,904	6,646,146
Amortization of intangible assets	391,619	455,873
Auditors' remuneration - fees	328,860	328,860
16. CASH AND CASH EQUIVALENTS		
Investment in call deposit	1,176,645	2,221,023
Bank and cash balances	<u>217,562,321</u>	<u>77,878,274</u>
	<u>218,738,966</u>	<u>80,099,297</u>
17. OPERATING LEASE COMMITMENTS		

Operating lease payments represent rentals payable by the Council for its office space. Property rental expenses on leased office accommodation during the year amounted to Kshs.18, 475,273 (2013 KShs. 16, 065,455). At the statement of Financial Position date, the Council had outstanding commitments under the operating lease on office accommodations which fall due as follows:

Within One Year	18,475,273	16,065,455
Between 2 - 5 Years	<u>78,493,418</u>	<u>68,255,146</u>
At 30th June	<u>96,968,691</u>	<u>84,320,601</u>

18. RETIREMENT BENEFIT OBLIGATIONS

The Council operates a defined contribution scheme for all permanent employees. The Council contributes 20% of employees' basic pay into this fund per month, while the employee contributes 10%. This scheme is administered by the Insurance Company of East Africa Limited. The Council's contribution to the scheme for the year ended 30 June 2014 was KShs. 9,551,310 (2013 – KShs 8,693,793).

The Council also operates and manages a contributory staff gratuity fund for non-pensionable staff. These funds are employee held at Housing Finance Company of Kenya Limited. The Council contributes 20% of employees' basic pay into this fund per month. The Council's contribution to the gratuity fund for the year ended 30 June 2014 was KShs. 2,066,694 (2013 – KShs. 2,876,497).

The Council also contributes to the statutory defined contribution pension scheme, the National Social Security Fund. This is a defined contribution scheme under the National Social Security Act. The Council's obligation under the scheme are limited to specific contributions set from time to time and are currently limited to KShs 200 per month per employee. Contributions to the scheme during the year amounted to KShs 144,200 (2013– KShs. 141,400).

19. CAPITAL MANAGEMENT

The primary objective of the Council's capital management is to ensure that the Council complies with capital requirements and maintains healthy capital ratios in order to support its business and to maximize shareholders' value.

The Council maintains an actively managed capital base to cover risks inherent in the business. The impact of the level of capital on Council's return is also recognized and the Council recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

20. COUNTRY OF INCORPORATION

The Council is incorporated in Kenya under the Companies Act as a Council limited by guarantee and not having a share capital.

21. STAFF WELFARE FUND

a)

The Council has set up a Staff Welfare Fund for staff which will act as a revolving fund where staff can access low interest loans. This is aimed at motivating , attracting and retaining high caliber staff.

b)

The Council allocated **KShs.25,000,000** towards the Staff welfare plus interest earned amounting to **KShs. 1,245,170** during the current year while in the financial year 2012/13 the Council had allocated **KShs.25,000,000**.

22. FIXED ASSETS FULLY DEPRECIATED

The Council's Fully depreciated assets are disclosed as follows:

Class of Fixed Assets	Gross Carrying amounts
Computers	4,742,167
Furniture and Fittings	400,405
Office Equipments	7,362,511
Software	3,163,845