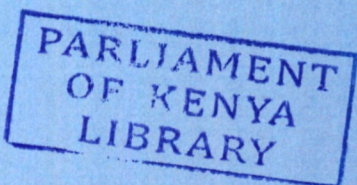


REPUBLIC OF KENYA



*Paper laid by the
Leader of major parties
on p/f
25/07/2018*

OFFICE OF THE AUDITOR-GENERAL



REPORT



OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
EXPORT PROMOTION COUNCIL**

**FOR THE YEAR
ENDED 30 JUNE 2017**



EXPORT PROMOTION COUNCIL

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017**

**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 19th August 1992, which established the Council and Gazette Notice No. 4342 of 9th October 1992.

At cabinet level, the Export Promotion Council is represented by the Cabinet Secretary for Industry, Trade and Co-operatives who is responsible for the general policy and strategic direction of the Export Promotion Council.

(b) Principal Activities

The mandate of the Council includes provision of strategic assistance to exporters of 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 anchor Kenya's goods and services in the global market place for economic prosperity.

Mission

To drive Kenya's exports globally through intelligent, timely, accurate product and market information.

Brand Promise

Inspiring Global Trade.

Strategic Objectives

- To increase Kenya's exports of goods and services by an average of 14% per year over the plan period (2012-2017).
- To take the lead role in facilitating export trade
- To continuously ensure the sustainability of EPC's resource base
- To deliver outstanding services

(c) Key Management

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

- Chief Executive Officer
- General Managers
- Unit heads;

Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2017 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Chief Executive Officer (w.e.f) 4 th April 2017	Mr. Peter Biwott
2.	General Manager Finance	Ms. Christine Mwaka
3.	General Manager, Market Development and Promotion	Mr. Maurice Otieno
4.	Ag. General Manager, Enterprise and Product Development	Mr. Austin Macheso
5.	Ag. General Manager, Trade Information and Business Services	Mr. Kenneth Murimi
6.	Ag. General Manager, Research and Planning	Mr. Peter Ochieng
7.	Manager Human Resource and Administration	Ms. Rosebell Wainaina
8.	Manager, Internal Audit	Mr. Victor Odindo

(d) Fiduciary Oversight Arrangements

Strategy, Export Development and Promotion Committee

The Committee is responsible for advising the Board on Development, Promotion and diversification of export goods, services and markets and facilitating development of export oriented enterprises.

No.	Strategy, Export Development and Promotion Committee	Remarks
1)	Ms. Mona W. Karingi	Chairman
2)	Prof. George O. Achoki	Member
3)	Ms. Flora Mutahi	Member
4)	Mr. Mohamed S. Bwika	Member
5)	Bintihamad Choyo Mwamaingu	Member
6)	Mr. Wilfred Mwanzia	Member
7)	Mr. Peter Biwott	Member

Finance and Resource Mobilization

The Committee is responsible for advising the Board on financial reporting processes, the system of internal control, compliance to policies and procedures, budgeting of the Council's activities and programmes and ensuring sustainability of the Council.

No.	Finance and Resource Mobilization Committee	Remarks
1)	Prof. George Otieno Achoki	Chairman
2)	Mr. Solomon Boit	Member
3)	Ms. Flora Mutahi	Member
4)	Mr. Kobia Wakamau	Member
5)	Mr. Joseph Mutuma	Member
6)	Mr. Oliver Konje	Member
7)	Mr. Simon Korir	Member
8)	Mr. Peter Biwott	Member

Audit, Risk and Governance Committee

The Committee is responsible for assisting the Board and Management in fulfilling its oversight role in financial reporting processes, systems of internal control, internal audit process, risk management and monitoring compliance with laws, regulations and the code of conduct.

No.	Audit, Risk and Governance Committee	Remarks
1)	Mr. Mohamed S. Bwika	Chairman
2)	Mr. Solomon S. Boit	Member
3)	Bintihamad Choyo Mwamaingu	Member
4)	Dr. Isaya Maana	Member
5)	Mr. Wilfred Mwanzia	Member
6)	Mr. Joseph Mutuma	Member
7)	Mr. Peter Biwott	Member

Human Resource and Administration Committee

The committee is responsible for assisting the Board in discharging its duty in overseeing the establishment of appropriate administrative and human resources policies and procedures.

No.	Human Resource and Administration Committee	Members
1)	Mr. Solomon S. Boit	Chairman
2)	Ms. Mona W. Karingi	Member
3)	Mr. Mohamed S. Bwika	Member
4)	Dr. Isaya Maana	Member
5)	Mr. Kobia Wakamau	Member
6)	Mr. Wilfred Mwanzia	Member
7)	Mr. Simon Korir	Member
8)	Peter K. Biwott	Member

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.epckkenya.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

(e) Entity Contacts

Export Promotion Council (Headquarters)
P. O. Box 40247 – 00100 Nairobi
Tel: +254-20-2228534-8
Office Mobile: +254-722-205875, +254-734-228534
Email: chiefexe@epc.or.ke
Website: www.epckkenya.org

Branches

EPC Regional Office Mombasa
P.O. Box 90143- 80100 Mombasa
Tel: +254-041-2319247/020-3579237
Email: coast@epc.or.ke

EPC Regional Office Eldoret
P.O. Box 853 Eldoret
Tel: +254 -20-3573020/3573758
Email: western@epc.or.ke

EPC/JKIA Liaison Office
1st Floor, International Arrivals
P.O. Box 40247-00100, Nairobi
Tel: +254 -20-827911
Email: jkia@epc.or.ke

(f) 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



Independent Auditors

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




(g) Principal Legal Adviser




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





THE BOARD OF DIRECTORS

Director	Director profile
<p>Dr. Chris Kiptoo</p>	<ul style="list-style-type: none"> Principal Secretary State Department of Trade, Ministry of Industry, Trade and Cooperatives
<p>Mr. Jaswinder Bedi</p> 	<ul style="list-style-type: none"> DOB: 15.01.1963 Managing Director, Bedi Investments Limited President of International Textile Manufacturers Federation (ITMF) Chairman, African Cotton & Textile Industries Federation (ACTIF) Executive Director, Fine Spinners Uganda Limited. Executive Director, Fine Fashions Limited Former Chair, Kenya Association of Manufacturers Member KAM Advisory Board and Think Tank Governor, Kenya Private Sector Alliance Chairman, Kenya Apparel Manufacturers and Exporters Association Co-Chair, World Bank Cotton Apex Committee
<p>Mr. Solomon Boit</p>  <ul style="list-style-type: none"> MA (International Studies) MA (Economic and Social Studies) BA (Public Administration and Management) 	<ul style="list-style-type: none"> DOB: 13.06.1959 Consultant, Trapos Africa Chairman, Pyrethrum Board of Kenya Permanent Secretary, Ministry of Local Government Permanent Secretary, Ministry of Cooperative Development and Marketing Secretary, Public Service Commission Principal Administrative Secretary, Cabinet Office District Commissioner, West Pokot, Laikipia, Nairobi District Officer, various Divisions in Kenya



Director	Director profile
<p>Ms. Veska Kangogo</p>  <ul style="list-style-type: none"> • Pursuing PhD in Leadership and Governance • MBA (Strategic Management) • B. Ed • Certified Public Secretary (CPS) • Higher National Diploma in HR Management 	<ul style="list-style-type: none"> • DOB: 19.02.1976 • Vice Chairperson , Nairobi City Public Service Board • Trustee, NSSF as Chair of Strategy, Legal and Human Committee • Business Development and Technical Director, Three Sixty Management Consultancy • Corporate Affairs and marketing Manager, Local Authorities Provident Fund
<p>Prof. George Otieno Achoki</p>  <ul style="list-style-type: none"> • PHD in Human Resource Accounting • Masters of Commerce in Accounting and Statistics • Bachelors of Commerce • Post Graduate Diploma in Computer Science 	<ul style="list-style-type: none"> • DOB: 24.04.1966 • Associate Professor, USIU • Dean, Chandaria School of Business, USIU • Senior Lecturer, Kenyatta University • Management Consultant, Manpower Services (K)
<p>Ms. Flora Mutahi</p>  <ul style="list-style-type: none"> • MBA • BSc, Finance and Accounting 	<ul style="list-style-type: none"> • DOB: 05.08.1967 • Chairperson, Kenya Association of Manufacturers (KAM) • Founder/CEO, Melvin Marsh International Ltd • Vice Chair, COMESA Buisness Council • Board Member, Kenya Private Sector Alliance • Board Member, Jubilee Insurance Company • Board Member, SBM Bank Kenya • Founder and CEO of Azizi Realtors Ltd, a real estate company specializing in sale and lease of residential




Director	Director profile
<ul style="list-style-type: none"> • CPA (K) • Diploma in Executive Marketing 	<p>and commercial property</p>
<p>Ms. Mona Karingi</p>  <ul style="list-style-type: none"> • BA in Social Sciences • Certificate in Marketing (MSK) 	<ul style="list-style-type: none"> • DOB: 28.07.1974 • Country Marketing Manager , Coca-Cola East, West and Central Africa • Joined Coca-Cola in 2005 as Brand Manager and rose through the ranks • Expert in consumer marketing strategy in the FMCG sector • Overseen development, implementation and tracking of marketing strategy; • Consumer research, brand strategy development, advertising, promotions, public relations and media management with particular skills in translation of insights into strategies
<p>Ms. Binti Hamadi Choyo</p> 	<ul style="list-style-type: none"> • DOB: 22.12.1970 • Vice Chairperson , Maendeleo ya Wanawake, Kwale County • Chairlady, Maendeleo ya Wanawake, Ramisi Ward • Peer educator for social development on Women
<p>Mr. Mohamed Salim Bwika</p>  <ul style="list-style-type: none"> • MA in Industrial and Vocational Education • BA in Industrial and Vocational Education 	<ul style="list-style-type: none"> • DOB: 16.02.1945 • Board member in the Kenya Civil Aviation Board • Returning Officer, Electoral Commission of Kenya • Manager, Educational Services, Islamic Foundation of Kenya • Senior Principal, Coast Institute of Technology • Consultancy work with the ILO


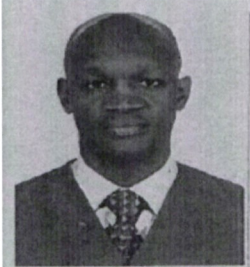

Director	Director profile
<p>Mr. Peter Biwott</p>  <ul style="list-style-type: none"> • Master's in International Development Studies (Economics of Development and Quantitative Economic Policy Analysis) • Bachelors of Commerce (Economics) • Post Graduate qualifications in Macroeconomic Policy Analysis and Research Continental Free Trade (African Context); Trade Dimension in the United Nations Development Assistance Frameworks; Standards and Agricultural Trade; and Trade in Services and Liberalization. <p>Full Member, Kenya Institute of Management (KIM).</p>	<ul style="list-style-type: none"> • DOB 21-07-1976 • Joined Export Promotion Council on 4th April, 2017 as Chief Executive Officer • Provides overall strategic direction for achievements of the Council's mandate • Previously worked with Kenya Association of Manufacturers (KAM), Kenya National Chamber of Commerce and Industry (KNCCI), Commission on Revenue Allocation (CRA), Kerio Valley Development Authority (KVDA), Kenya Institute of Public Policy, Research and Analysis (KIPPRRA) and Ministry of State for Planning, National Development and Vision 2030
<p>Mr. Kobia Wakamau</p> 	<p>W.e.f 1st July 2017, Alternate to the Principal Secretary, Ministry of Tourism</p>
<p>Mr. Simon Korir</p> 	<p>Alternate to the Principal Secretary , Ministry of Tourism upto 30th June 2017</p>
<p>Mr. Wilfred Mwanzia</p>	<p>Alternate to the Principal Secretary , Ministry of Agriculture, Livestock and Fisheries</p>

Director	Director profile
	
<p>Dr. Isaya Maana</p> 	<p>Alternate to the Governor, Central Bank of Kenya</p>
<p>Mr. Joseph Mutuma</p> 	<p>Alternate to the Principal Secretary , the National Treasury</p>
<p>Mr. Oliver Konje</p> 	<p>Alternate to the Principal Secretary , State Department of Trade</p>

MANAGEMENT TEAM

Profile of Key Managers	Main area of responsibility without details
<p>Mr. Peter Biwott</p>  <ul style="list-style-type: none"> • Master's in International Development Studies (Economics of Development and Quantitative Economic Policy Analysis) • Bachelors of Commerce (Economics) • Post Graduate qualifications in Macroeconomic Policy Analysis and Research Continental Free Trade (African Context); Trade Dimension in the United Nations Development Assistance Frameworks; Standards and Agricultural Trade; and Trade in Services and Liberalization. <p>Full Member, Kenya Institute of Management (KIM).</p>	<ul style="list-style-type: none"> • DOB 21-07-1976 • Joined Export Promotion Council on 4th April, 2017 as Chief Executive Officer • Provides overall strategic direction for achievements of the Council's mandate • Previously worked with Kenya Association of Manufacturers (KAM), Kenya National Chamber of Commerce and Industry (KNCCI), Commission on Revenue Allocation (CRA), Kerio Valley Development Authority (KVDA), Kenya Institute of Public Policy, Research and Analysis (KIPPRA) and Ministry of State for Planning, National Development and Vision 2030
<p>Ms. Christine Mwaka</p>  <ul style="list-style-type: none"> • CPA (K), • Pursuing PHD, (Course work complete) • MBA - Finance Option 	<ul style="list-style-type: none"> • General Manager Finance • Financial Management and Accountability

Profile of Key Managers	Main area of responsibility without details
<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>Mr. Peter Ochieng</p>  <ul style="list-style-type: none"> • Bachelor of Science (BSc) degree in International Trade • Post graduate diploma in international Studies. 	<ul style="list-style-type: none"> • Ag. General Manager Research and Planning • Market Research and Policy Analysis
<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 Services
<p>Mr. Austin Macheso</p>	<ul style="list-style-type: none"> • Ag. General Manager Enterprise and Product Development

Profile of Key Managers	Main area of responsibility without details
 <p>Master of International Business Management</p>	<ul style="list-style-type: none"> Enterprise and Product Development
<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
<p>Ms. Rosebell Wainaina</p> 	<ul style="list-style-type: none"> Human Resource and Administration Development and Implementation of Human Resource and Administration Policies

CHAIRMAN'S STATEMENT

I am pleased to present Export Promotion Council's Financial Statements for the year ended 30th June 2017.

Kenya's economy is in the transitional stages in readiness to leap from a lower middle income category to the higher middle income category. To make the transition, the country has been making efforts to upscale production capacities and value addition to its product for an increase in the export sector component to the Gross Domestic Product (GDP).

Kenya's export sector has been performing however at a lower rate, for example, 1.37% in 2016. The sector requires renewed thrust in terms of production and market penetration to enable it adequately contribute to the transformation of the economy by continually supplying foreign exchange. A stable and performing export sector will be a reliable vehicle to the socio-political transformation and economic developmental goals as desired within the context of the *Kenya Vision 2030* economic blue print.

This year had successes as well as pitfalls that impacted performance both at institutional as well as sector wide levels. Therefore while the Export sector has been performing there is still huge potentials for even better performance. The sector's growth has been held back due to diminishing competitiveness; low level diversification and subdued demands in the global export markets.

While efforts are continually being made for higher integration of the sector into the global system; Kenya's export basket is still relatively narrow with a few competitive products, most of which are by and large primary products with minimal value addition. These include tea, horticulture (cut-flowers, vegetables, and fruits), articles of apparels, coffee, vegetable oils, petroleum oil products, and iron & steel products, among others. The agricultural commodities have included - tea, horticulture, and, coffee, have been prone to global cyclical price movements and have thereby experienced relatively declining performance.

In 2016, 49.6 percent of Kenya's exports were mainly contributed by tea (21.5 %), horticulture (19.1 %), articles of apparels (5.3 %) and coffee (3.7 %) with the Key export markets equally concentrated including Uganda, Netherlands, USA, Pakistan, and United Kingdom. In the reported period, Kenya's total exports amounted to Kshs 578 billion (US \$ 5.70 billion) down from Kshs 581 billion (US \$ 5.92 billion) in 2015; while her total imports amounted to Kshs 1.43 trillion (US \$ 14.11 billion) in 2016 down from Kshs 1.58 trillion (US \$ 16.07 billion) in 2015.

Africa is currently Kenya's leading export destination; with exports to the EAC accounting for slightly more than half of total exports to Africa. Exports to Europe came second in terms of market performance. This however, this scenario is still not strong enough to support the Balance of Trade (BOT) position, particularly in the current situation where import volumes have been growing at an average of 11 percent between 2007-2016; driven by industrial machinery, petroleum products, road motor vehicles, iron and steel, pharmaceutical products, and plastics in primary form, which comprised 50% of total imports in 2016.

The Council is in the process of developing a new strategic plan that will focus on firm level interventions to enable the export and growth oriented firms to unlock their potentials to compete effectively in the global market place. In line with this, the Council is also facilitating the development of a National Export Development and Promotion Strategy (NEDPS) that is in line with Kenya's Vision 2030 aspirations. The development of the NEDPS is intended to significantly spur growth and transform the performance of the trade and export sector.

As the institution charged with development and promotion of Kenya's exports, we have continually endeavoured to manage the wide ranging dynamics in the global markets that have in many ways undermined Kenya's export performance. The specific interventions have been on markets that were once performing but are currently lagging behind due to the increased intensity of competition, changing consumer patterns or; due global realignments through agreements and other geopolitical considerations. For longer term engagements, the primary focus will be the competitiveness of Kenyan export product and supplying these goods and services in the global markets.

The ongoing reforms by Government, continued market access and trade negotiations are yielding good results that are likely to open opportunities for exports, while on the other hand, the discovery of coal, oil and other rare earth are promising new products for the markets, declining cost of energy, are factors that are for good purpose, will lead to a strong base for a future performing export sector, with strong demand in the region and international markets.

The Council has undertaken to enhance its efforts to promote Trade both in goods and in services.

This is an area where the country has proven competitive advantage especially in professional Services; Information Technology and Information Technology Enabled Services; transport and logistics as well as banking and Non-Banking financial Services. These sector have proven capacity for renewed streams for foreign exchange generation as well as employment.

The Council has been engaging in Market surveys and product Specific researches that would lead to specific niche markets with corresponding niche products. To enable efficiency in the supply chain, the council will continue addressing efficiencies in the market information system to keep abreast with the diverse aspects of demands and related market dynamics

As we move forward and with the support of the government, we pledge to take the challenge and take Kenya's export sector to the next level for the continued growth of the economy.



Mr. Jaswinder Bedi
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.

The Council will therefore be celebrating its Silver Jubilee before the end of 2017, when a number of activities are planned to mark the auspicious occasion as we chart the way forward in enhancing export competitiveness in tandem with our mandate as a trade promotion organization.

EPC Partnership with Government

As an agency of Government, the Council works with stakeholders at all levels of the value chain towards achievement of supply and demand deliverables in export trade. During the Financial Year 2016-2017, the Council implemented the final phase of its Strategic Plan 2012-2017. As a partner of Government in delivering on economic goals and targets, the Strategic Plan of the Council is aligned to the Medium Term Plans that operationalise the Kenya Vision 2030 blueprint. The Strategic Plan therefore ran through the life of the Medium Term Plan (MTP) II 2013-2017, and the Council has already embarked on formulation of the Strategic Plan for the period 2017-2022, which will likewise be aligned to the Medium Term Plan (MTP) III 2018-2022.

The objectives of the Strategic Plan 2017-2022 are:

1. To increase exports by 20% in the planned period by consolidating, diversifying and expanding markets for Kenyan exports;
2. To play an active role in developing a conducive export policy environment and take lead in facilitating export trade;
3. To continuously ensure the sustainability of EPC'S Resource base;
4. To deliver outstanding services.

The Role of Exports in Economic Growth and Development

Export growth is important due to its effect on internal trade and economic stability. The rate of economic growth and the distribution of income and wealth in a country are closely related to export growth. When exports increase at a faster pace as compared to imports, rapid economic development is realised.

Development of capacity in production of exportable goods and services leads to creation of employment, and is also a platform for further innovation. Through export earnings, the country is able to address social ills such as crime, poverty, disease and illiteracy, leading to improved livelihoods and attractiveness as an investment and tourist destination. 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.

Export growth is also important due to its effect on internal trade and economic stability. Economic growth and distribution of income and wealth in a country are closely related to export growth. This is influenced by increases in Foreign Direct Investment (FDI) to ventures that generate export-based products. In addition, local investors benefit by setting up value addition facilities that earn a higher return on investment through export earnings. Sustained export earnings also strengthen our local currency against other hard currencies and support Kenya's ability to import high value goods and machinery critical for a growing economy. It also lowers borrowing costs, which is one of the key indicators in the cost of doing business ratings. Sustainable export growth also stabilizes inflation and the cost of living. Exports enable the country to narrow its trade deficit and in the process, improve the balance of payments so as to maintain healthy liquidity levels that arrest escalation of working capital costs.

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 then assists the exporters in identifying markets through test-marketing in select regional and international destinations. The Council has submitted 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, so as to support development of export capacity to SMEs. In addition, the Council has partnered with the Commonwealth Secretariat (COMSEC) on operationalising trade in services as a growing component in Kenya's exports.

The product development measures are 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.

Export Performance during the Period

Tea, horticulture and textiles/apparels accounted for 45.9% of the total export earnings in 2016, totalling to Kshs. 506.5 billion. Direct exports that constitute locally produced goods grew marginally by 1.4% while re-exports declined by 12.1%, due to contraction of re-export of petroleum products and manufactured articles.

Exports to Asian markets, specifically Pakistan, United Arab Emirates, India, China and Saudi Arabia posted a marked increase, pointing at growth prospects that Kenya will need to exploit in the coming years. Exports to North America also posted an increase, where Kenya is leveraging on the AGOA window to grow exports to USA, and with Canada posting a 150% increase in imports from Kenya.

On the other hand, exports to East African countries posted a decline, which was attributed to the effects of regional integration where entry restrictions were imposed by some of the destination countries hampering export of some of the best performing products. Countries in the region have also increased their manufacturing capacity and are therefore not fully dependent on Kenya as source of manufactured consumer goods. It is also noted that some of the EAC countries are substituting goods initially imported from Kenya with similar products from other countries which are now allowable at lowered duty rates adopted across East Africa.

Performance in the European market that mainly absorbs our traditional commodity exports posted a slight decline, which is attributed to cautious spending culture in Europe. The sluggish performance is also related to suspense over the future of performance of Kenya's exports outside the Economic Partnership Agreement (EPA).

Global economic growth is projected at 3.5% in 2017 and 3.6% in 2018, even though prospects across the economies remain uneven. Kenya's growth is projected at 5.8% in 2017 and is likely to continue on the same tangent supported by a stable macro-economic environment, low oil prices, rebound in tourism, strong remittance inflows and a pragmatic investment drive. The World Bank Report for April, 2017, projects a real GDP growth of 5.5%.

The prolonged drought in Kenya led to crop failure, dying livestock and this increased pressure on the economy with rising cost of power and food, pushing inflation to a five-year high of 10.3% in March, 2017. A slowdown in credit growth is also impacting on borrowing following introduction of interest rate caps, thereby affecting private investment. The disruptive geopolitical events such as the BREXIT in Europe and

policy uncertainties USA are translating into weakened international capital movements, slowing down growth in the global economies with the biggest impact to developing countries.

The Export Promotion Council is among the institutions earmarked for merger. 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 replacement of staff by Parastatals earmarked for merger.

Mitigating the Challenges through Market Development and Consolidation

According to the International Monetary Fund (IMF: *Regional Economic Outlook, May, 2017*), the growth momentum in sub-Saharan Africa slowed sharply in 2016, averaging 1.4 percent, the lowest in two decades. 2016 was a difficult year for many countries in the continent, with growth for about two-thirds of the countries in the region, accounting for 83 percent of the region's GDP, slowing down. According to the Report, the external environment has recently become more favourable but will only offer limited support. Improvements in commodity prices will provide some relief but will not be enough to address existing imbalances triggered by drought, pests, famine and insecurity.

To contain this situation, the Council has partnered with the State Department of Trade in development of the National Trade Policy and the National Export Development Strategy. These policy documents are expected to provide guidelines that will enable the Council to navigate through the identified challenges, and access new and emerging markets. The policy documents also provide frameworks of collaboration with County Governments and Regional Development bodies in export value-chain activities as a devolved function. The collaborations will be anchored on the objectives of the Strategic Plan 2017-2022 that seeks to commit players in the export sector to achieving annual growth targets of 14% so as to reduce Kenya's trade deficit to 50% by the year 2030.

In addition, the Council has embarked on a market prioritization programme targeting destinations that hold great potential for export of specific products. The markets are expected to absorb the products generated through the stated collaboration with the devolved units of Government and regional development authorities. Among the countries that the Council has conducted market surveys, include the Republic of Nigeria, Ethiopia, Angola and Ghana. 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 have brought out export potentials, entry requirements, dynamics, 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 findings of the surveys have been disseminated to stakeholders and the Council will continue to avail crucial information on the markets to exporters.

The Council also participated in the 15th AGOA Forum, New York NOW 2016, Origin Africa 2016, Madagascar, 2016, 2017 Vibrant Gujarat, Kigali International Trade Fair, Sourcing at Magic in Las Vegas, China International Tea EXPO, 2017 Global Speciality Coffee Exposition (USA) and EXPO 2017 Astana, Kazakhstan. 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, for development and consolidation of markets globally. 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.

The Council also signed Memorandums of Understanding (MOU) with the Coast Development Authority and Kerio Valley Development Authority on, among others, sharing market information, collaboration in marketing research activities, implementation of trade promotion activities, organizing training programs and exchange of experts.

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 the Government, Kenya's participation to Expo 2017, Astana, Kazakhstan, between 10th June and 10th September, 2017.
4. In collaboration with other government agencies helped enterprises develop their products and also conducted test markets in USA and Rwanda.
5. In conjunction with the 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;

Appreciation

I take this opportunity to thank the Ministry of Industry, Trade and Co-operatives, the mother Ministry that has continued to offer unparalleled support to the Council in the 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.



Peter Biwott
CHIEF EXECUTIVE OFFICER

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

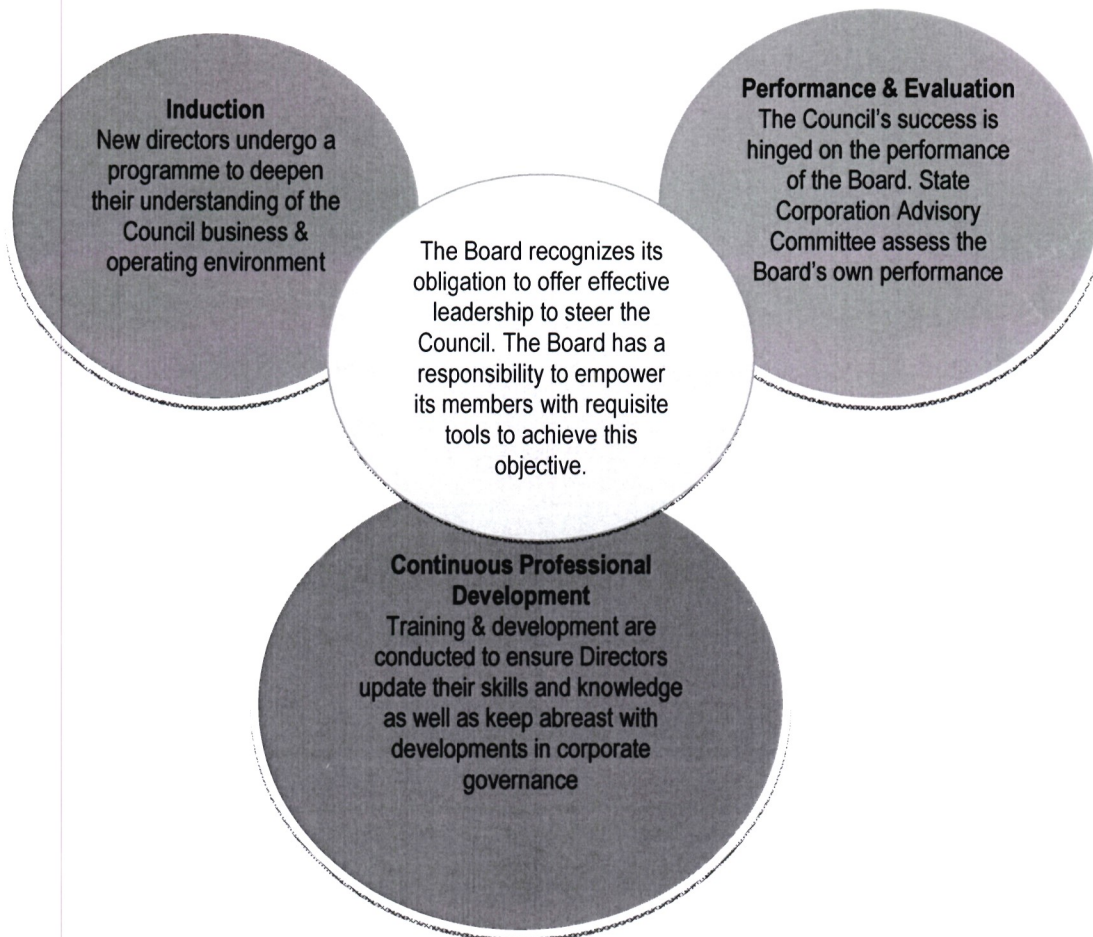
The Board's responsibilities are broadly set in the Board Charter. The Charter further outlines the core commitment required of members of the Board to discharge their mandates. It ensures the effectiveness of each Director's contribution in the governance of the Council by facilitating full and free 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 has its own calendar of both regular and special meetings set out in the Mwongozo and Control of Board expenses Circular Ref: OP.CAB.9/1A. 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 advising the Board on Development, Promotion and diversification of export goods, services and markets and facilitating development of export oriented enterprises.

The membership of the Committee is comprised as follows:

Mona Wanjiru Karingi	-	Chairman
Flora Mutahi	-	Member
Bintihamad Choyo	-	Member
Wilfred Mwanzia	-	Member
Prof. George Achoki	-	Member

The Committee held four (4) regular meetings.

b) Human Resources & Administration Committee

The committee is responsible for assisting the Board in discharging its duty in overseeing the establishment of appropriate administrative and human resources policies and procedures.

The membership of the Committee is comprised as follows:

Veska Kangongo	-	Chairman
Mona Wanjiru Karingi	-	Member
Mohamed Salim Bwika	-	Member
Dr. Isaya Maana	-	Member
Simon Korir		

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

c) Finance and Resource Mobilization

The Committee is responsible for advising the Board on financial reporting processes, the system of internal control, compliance to policies and procedures, budgeting of the Council's activities and programmes and ensuring sustainability of the Council.

The membership of the Committee is comprised as follows:

Prof. George Achoki	-	Chairman
Dr. Chris Kiptoo	-	Member
Flora Mutahi	-	Member
Solomon Boit	-	Member
Joseph Mutuma	-	Member
Simon Korir	-	Member

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 assisting the Board and Management in fulfilling its oversight role in financial reporting processes, systems of internal control, internal audit process, risk management and monitoring compliance with laws, regulations and the code of conduct.

The membership of the Committee is comprised as follows:

Solomon Boit	-	Chairman
Veska Kangogo	-	Member
Dr. Chris Kiptoo	-	Member
Dr. Isaya Maana	-	Member
Joseph Mutuma	-	Member
Solomon Boit	-	Member

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

REPORT OF DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2017 which show the state of the Council's affairs.

Principal activities

The principal activities of the entity is 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.

Results

The results of the entity for the year ended June 30, 2017 are set out on page 27 to 35.

Directors

The members of the Board of Directors who served during the year are shown on page 7 to 12.

Auditors

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

By Order of the Board



Mr. Peter Biwott
Chief Executive Officer/Secretary to The Board
NAIROBI

Date:..... 6-7-2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 (3) of the Public Finance Management Act, 2012 and Section 14 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, 2017. 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, 2017. 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, 2017, 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 21st Sept 2017 and signed on its behalf by:



Mr. Jaswinder Bedi
CHAIRMAN



Peter Biwott
CHIEF EXECUTIVE OFFICER/SECRETARY

REPUBLIC OF KENYA

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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 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Export Promotion Council set out on pages 1 to 25, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 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, the financial statements present fairly, in all material respects, the financial position of Export Promotion Council as at 30 June 2017, and of its financial performance and its cash flow for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with Kenyan Companies Act.

In addition, 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 money has not been applied lawfully and in an effective way.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Export Promotion Council in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

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

Report of the Auditor-General on the Financial Statements of Export Promotion Council for the year ended 30 June 2017

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Council's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to have the Council 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.

Those charged with governance are responsible for overseeing the Council's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 of Kenya. 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 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.

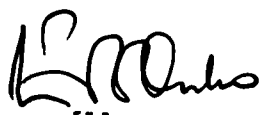
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Council's 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 going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Council to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal 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.



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

Nairobi

28 June 2018

**STATEMENT OF FINANCIAL PERFORMANCE
AS AT 30TH JUNE 2017**



	Note	2017	2016
		KShs	KShs
INCOME			
Grants Received	4	492,000,000	706,685,745
Deferred Income	3	<u>(160,700,000)</u>	<u>0</u>
		331,300,000	706,685,745
 COST RECOVERIES	 5	 <u>3,435,422</u>	 <u>6,735,643</u>
		<u>334,735,422</u>	<u>713,421,388</u>
 EXPENSES			
Administrative expenses	6	94,097,289	85,066,813
Staff Costs	7	104,207,817	107,046,742
Directors emoluments	8	20,157,908	13,540,046
Other operating expenses	9	<u>113,425,912</u>	<u>510,928,074</u>
 TOTAL EXPENSES		 <u>331,888,926</u>	 <u>716,581,675</u>
 SURPLUS / (DEFICIT) AMOUNT FOR THE YEAR	 11	 <u>2,846,496</u>	 <u>(3,160,288)</u>


**STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE, 2017**



		<u>2017</u>	<u>2016</u>
		KShs	KShs
ASSETS			
NON CURRENT ASSETS			
Property and Equipment	12	16,593,978	26,675,705
Intangible assets	13	<u>33,320</u>	<u>45,815</u>
		<u>16,627,298</u>	<u>26,721,520</u>
CURRENT ASSETS			
Accounts Receivable	14	34,978,378	27,832,888
Investment in Call Deposits	15	533,519	533,519
Bank and Cash balances	15	276,329,755	114,859,394
		<u>311,841,651</u>	<u>143,225,801</u>
TOTAL ASSETS		<u>328,468,948</u>	<u>169,947,321</u>
RESERVES AND LIABILITIES			
RESERVES			
General fund	16	68,090,983	65,244,487
Non Current Liabilities			
Staff Welfare Scheme	17	86,334,734	83,472,155
CURRENT LIABILITIES			
Accounts Payables	18	<u>174,043,231</u>	<u>21,230,679</u>
TOTAL RESERVES AND LIABILITIES		<u>328,468,948</u>	<u>169,947,321</u>

The draft financial statements were approved by the Board of Directors

on 21st Sept2017 and signed on its behalf by:-



Mr. Jaswinder Bedi
CHAIRMAN

6th JULY 2018
Date



Mr. Peter Biwott
CHIEF EXECUTIVE OFFICER/SECRETARY

6-7-2018
Date

**STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30TH JUNE 2017**



	General Fund KShs	Total Reserves KShs
Year ended 30th June, 2015		
At 1 st July 2014	61,352,529	61,352,529
Surplus for the year	7,052,245	7,052,245
Balance as at 30th June 2015	<u>68,404,774</u>	<u>68,404,774</u>
Year ended 30th June 2016		
Balance B/F (As at 1 st July 2015)	68,404,774	68,404,774
Surplus/(Deficit) for the Year	<u>(3,160,287)</u>	<u>(3,160,287)</u>
Balance as at 30th June 2016	<u>65,244,487</u>	<u>65,244,487</u>
Year ended 30th June 2016		
Balance B/F (As at 1 st July 2016)	65,244,487	65,244,487
Surplus/(Deficit) for the Year	2,846,496	2,846,496
Balance as at 30th June 2017	68,090,984	68,090,984

STATEMENT OF CASHFLOWS
THE YEAR ENDED 30TH JUNE, 2017



	2017	2016
	KShs	KShs
Surplus/ (Deficit) for the year	2,846,496	(3,160,288)
Adjustments for:-		
Depreciation of equipment and motor vehicles	10,081,728	10,036,413
Amortization	12,495	318,111
Operating Surplus before working capital changes	12,940,719	7,194,237
Accounts Receivables	(7,145,490)	54,702,698
Accounts Payables and changes in staff welfare scheme	<u>155,675,131</u>	<u>(217,973,640)</u>
Net Cash flows utilized in operating activities	<u>161,470,360</u>	<u>156,076,705</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	0	(18,691,892)
Net cash flows utilized in investing activities	0	(18,691,892)
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>161,470,360</u>	<u>(174,768,597)</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR 1ST JULY 2016	115,392,912	290,161,509
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR 30TH JUNE 2017	<u>276,863,272</u>	<u>115,392,912</u>

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30TH JUNE, 2017



DESCRIPTION	ACTUAL KSHS.	BUDGET KSHS.	PERFORMANCE DIFFERENCE KSHS.
INCOME			
GRANTS RECEIVED	492,000,000	492,000,000	0
COST RECOVERIES	3,435,422	4,860,000	(1,424,620)
DEFERRED PROJECTS INCOME (2016/17)	(160,700,000)	0	(160,700,000)
TOTAL INCOME	334,735,422	496,860,000	(162,124,620)
EXPENSES			
Office rent and rates	27,364,295	23,000,000	(4,364,295)
Depreciation & Amortization	10,094,223	10,250,000	155,777
Medical expenses	12,136,743	12,000,000	(136,743)
Other Administration expenses	44,502,028	41,191,788	(3,310,240)
Staff Costs	104,207,817	120,126,525	15,918,708
Directors' Expenses	20,157,908	17,739,837	(2,418,071)
Programme Costs	113,425,912	111,851,850	(1,574,062)
EXPENDITURE	331,888,926	336,160,000	4,271,074

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 – IPSAS 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.

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 equipments	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, amortization rate is 25%

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

- The debtors or an 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, 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.

q) Cash and cash equivalents

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

r) Comparative figures

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

s) Significant judgments and sources of estimation uncertainty – 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.

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. 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.

t) Subsequent events – IPSAS 14

There has been no event subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE, 2017**



3. DEFERRED INCOME	2016/2017	2015/2016
EXPO 2017, Astana	146,200,000	-
Website Redesign & Branding	4,500,000	-
Market Research in Ghana & Strategic Plan	10,000,000-	-
Total	<u>160,700,000</u>	<u>-</u>
 GRANTS RECEIVED		
4. Grants received from:		
The Government of Kenya: Recurrent	452,000,000	406,719,377
The Government of Kenya: Development	40,000,000	80,000,000
Total grants received in 2016/2017	492,000,000	486,719,377
Deferred Income Brought forward	0	<u>219,966,368</u>
Total grants for the year	492,000,000	706,685,745
Deferred Income carried forward	(160,700,000)	(0)
	<u>331,300,000</u>	<u>706,685,745</u>
 5. COST RECOVERIES		
Sundry income	37,826	3,208,103
Participation fees from trade fairs	2,374,565	2,146,872
Training income	65,500	0
Interest income from Bank deposits	<u>957,530</u>	<u>1,380,668</u>
	<u>3,435,422</u>	<u>6,735,643</u>
 6. ADMINISTRATIVE EXPENSES		
Office rent and rates	27,364,295	24,509,533
Travelling expenses	8,987,666	6,197,073
Medical expenses	12,136,743	10,002,213
Depreciation	10,081,728	10,036,414
Recruitment and training	7,470,555	8,127,235
Telephone	4,257,762	3,729,239
Printing and stationery	2,839,567	3,942,708
Motor vehicle expenses	1,557,711	2,343,918
Repairs and maintenance	2,741,601	4,099,548
Insurance	1,270,939	708,749
Postal and internet expenses	2,854,187	1,937,736
Legal and professional fees	2,459,200	2,083,200
Subscriptions	0	169,589
Newspapers and magazines	441,374	924,880
Auditors' remuneration	406,000	406,000

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE, 2017**



	Amortization of intangible assets	12,495	318,111
	Club subscriptions	1,325,745	693,651
	Liaison and Networking	1,242,046	435,728
	Catering and cleaning	3,688,262	3,906,609
	Internal Audit	2,545,398	0
	Bank charges	414,016	494,681
		<u>94,097,289</u>	<u>85,066,815</u>
7.	STAFF COSTS		
	Salaries and wages	93,748,486	95,796,443
	Contribution to staff schemes	9,378,462	10,244,967
	Group Life Insurance	961,470	878,991
	Social Security Costs	119,400	126,340
		<u>104,207,817</u>	<u>107,046,741</u>
8.	DIRECTORS EMOLUMENTS		
	Directors emoluments	20,157,908	13,540,046
		<u>20,157,908</u>	<u>13,540,046</u>
9	OTHER OPERATING EXPENSES		
	Expo Expenses (Note 10)	7,022,130	351,180,437
	Fairs and Exhibitions	44,620,856	89,893,782
	Trade Promotion and Publicity	51,098,705	61,104,283
	Advertising	632,483	1,578,070
	International Organization for Standardization (ISO) Certification	137,400	477,905
	CBIK Expenses	6,819,400	5,951,864
	Strategic Evaluation Review	3,094,938.	741,734
		<u>113,425,912</u>	<u>510,928,074</u>
10	EXPO EXPENSES		
	This relates to Expo 2017 Astana, which was held between June – September , 2017		
11.	SURPLUS/(DEFICIT) FOR THE YEAR		
	Deficit for the year has been realized after charging:		
	Depreciation	10,081,728	10,036,414
	Amortization of intangible assets	12,495	318,111
	Auditors' remuneration - fees	406,000	-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE, 2017**



12. PROPERTY, PLANT AND EQUIPMENT

	Office Equipment KShs	Computer Equipment KShs	Furniture and Fittings KShs	Motor Vehicles KShs	Total KShs
Cost					
AT 30th June, 2015	22,220,768	34,653,216	29,151,452	28,227,862	114,253,298
Additions	29,995	-	1,423,795	17,188,123	18,641,913
AT 30th June, 2016	22,250,763	34,653,216	30,575,247	45,415,985	132,895,211
Additions	0	0	0	0	0
AT 30th June, 2017	22,250,763	34,653,216	30,575,247	45,415,985	132,895,211
Depreciation					
At 30th June, 2015	20,540,564	27,983,835	24,311,696	23,346,998	10,668,020
Depreciation	1,056,989	3,727,192	1,079,987	4,172,244	10,036,413
At 30th June, 2016	21,597,553	31,711,027	25,391,683	27,519,242	106,219,506
Depreciation	489,747	2,869,627	1,217,198	5,505,156	10,081,728
At 30th June, 2017	22,087,301	34,580,654	26,608,881	33,024,398	116,301,233
Net book Values					
At 30 June 2017	163,462	72,562	3,966,366	12,391,587	16,593,978
At 30 June 2016	653,210	2,942,189	5,183,564	17,896,743	26,675,705
At 30 June 2015	1,680,204	6,669,381	4,839,756	4,880,864	18,070,205

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE, 2017**



13. INTANGIBLE ASSETS	2017 KShs	2016 KShs
COST		
Balance B/F	9,081,357	9,031,378
Additions	0	49,979
At 30th June	<u>9,081,357</u>	<u>9,081,357</u>
AMORTISATION		
Balance B/F	9,035,542	8,717,431
Charge for the year	12,495	318,111
At 30th June	<u>9,048,037</u>	<u>9,035,542</u>
NET BOOK VALUE	<u>33,320</u>	<u>45,815</u>
14. ACCOUNTS RECEIVABLES		
Staff Receivables	25,144,644	13,959,892
Prepayments	<u>9,833,733</u>	<u>13,872,996</u>
	<u>34,978,378</u>	<u>27,832,888</u>
15. CASH AND CASH EQUIVALENTS		
Investment in Call Deposit -	533,519	533,519
Bank and Cash Balances	<u>276,329,755</u>	<u>114,859,394</u>
	<u>276,863,273</u>	<u>115,392,912</u>
NB:		
Cash & Cash Equivalents are held at Kenya Commercial Bank Ltd, University Way Branch and Housing Finance, Kenyatta Avenue Branch.		
16. RESERVES		
General Fund (Unrestricted)		
Balance B/F	65,244,487	68,404,774
Surplus/Deficit for the Year	<u>2,846,496</u>	<u>(3,160,288)</u>
At 30th June	<u>68,090,983</u>	<u>65,244,487</u>

17. STAFF WELFARE SCHEME

a)

The Council has set up a Staff Housing and Car Loan Scheme for staff which will act as a revolving fund where staff can access low interest loans as per the SRC circular. This is aimed at motivating , attracting and retaining high caliber staff.

b)

The Council Staff Welfare Scheme for the year ended 30 June 2017 was **Kshs. 86,334,734** (2016 – **KShs 83,472,155**).

Details	Amounts
Opening Balance as at 01.07.16	83,472,155
Earned Interest	2,862,579
Staff Welfare Scheme balance as at 30.06.17	86,334,734

18.	ACCOUNTS PAYABLE		
	Deferred Income	160,700,000	0
	Payables	10,051,615	18,040,611
	Due to Staff Gratuity Scheme	533,518	533,518
	Staff Leave Pay Provision	<u>2,758,097</u>	<u>2,656,550</u>
		<u>174,043,231</u>	<u>21,230,679</u>

19. 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.27,313,844 (compared to KShs. 21,338,941 for 2016). 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	27,313,844	21,338,941
	Between 2 - 5 Years	<u>116,044,668</u>	<u>90,659,897</u>
	At 30th June	<u>143,358,513</u>	<u>111,998,838</u>

20. 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 2017 was KShs. 8,020,736 (2016 – KShs 8,514,087).

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. 119,400 (2016– KShs. 126,340).

21. 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.

22. 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.

23. SINKING FUNDS

The Council will have a separate investment account for the sinking fund (capital replacement reserves) and item disclosed as a separate line item in the statement of changes in net assets in the subsequent year (2017/2018) which will be approved by the Board of Directors. The Council has however been retaining its earnings through the general fund over the years

24. RELATED PARTY DISCLOSURES AS PER 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. There were no related party transactions in the year under review.

The Council relies 100% of its funding from the Government of Kenya and this gives rise to significant influence and therefore a related party relationship. Parties are considered to be related if one party has the ability to control the other or exercise significant influence over the other party in making financial or operational decisions. The Council's main related parties are the Government of Kenya and the Ministry of Industry, Trade and Cooperatives.

Director and key management compensation

	2017	2016
	Kshs	Kshs
<hr/>		
Fees for services as a Director		
Non-Executive Directors	20,157,908	13,540,046
<hr/>		
Other emoluments:		
Salaries and other short-term employment benefits:		
Key management	31,888,781	29,562,912
<hr/>		
Total fees and other emoluments	52,046,689	43,102,958
<hr/> <hr/>		

25. FINANCIAL RISK MANAGEMENT

The Council's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree or a combination of risks. The business of the Council requires taking risk and the operational risks are an inevitable consequence of being in business.

The Council thus strives to achieve an appropriate balance between risk and return and minimise potential adverse effects on its performance. The key types of risks includes credit risk and liquidity risk.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Council's risk management framework.

Top management identifies and evaluates the risks in close cooperation with the operating units and this is submitted to the board for review.

The Council does not enter into or trade in financial instruments for speculative purposes.

i) Foreign currency risk

The Council has transactional currency exposures. Such exposure arises through the purchase of services that are done in currencies other than the local currency. Invoices denominated in foreign currency are paid 30 days from the invoice date and conversion at the time of payment is done using the prevailing exchange rate.

At 30 June 2017	Kshs
Financial assets;	
Bank Balance	4,312,184
	4,312,184
=====	
Liabilities;	
Trade and other payables	797,207
Net currency liability	3,514,977
=====	
At 30 June 2016	
Financial assets	
Bank Balance	4,307,124
	4,307,124
=====	
Liabilities	
Trade and other payables	756,724
Net currency liability	3,550,400
=====	

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE, 2017**



ii) Credit risk

The Council has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risks arise from cash and cash equivalents, and deposits with banks, as well as other receivables.

The carrying amount of financial assets recorded in the financial statements representing the Council's maximum exposure to credit risk without taking into account of the value of any collateral obtained is made up as follows:

	Neither Past nor impaired	Due Over 60 days	Past due not impaired over 365 days	Total
	Kshs	Kshs	Kshs	Kshs
<hr/>				
At 30 June 2017				
Bank Balance	276,329,755			276,329,755
Investment in Call Deposit	533,519			533,519
Other Receivables (excluding Prepayments)	25,437,842			25,437,842
	302,301,116			302,301,116
<hr/>				
At 30 June 2016				
Bank Balance	114,859,394			114,859,394
Investment in Call Deposit	533,519			533,519
Other Receivables (excluding Prepayments)	13,872,996			13,872,996
	129,265,909			129,265,909
<hr/>				

Receivable balances from Council's staff are recovered on payment of salaries.

iii) Liquidity risk

Liquidity risk is the risk that the Council will not be able to meet its financial obligations as they fall due. The Council's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damaging the Council's reputation. Ordinarily the Council ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted such as natural disasters. The Council monitors its risk to shortage of funds using a liquidity planning tool.

The table below analyses maturity profiles of the financial liabilities of the Council based on the remaining period using 30th June 2017 as a base period to the maturity date.

	Less than 3 Months KShs	3 to 12 months Kshs	1 to 5 years Kshs	Total Kshs
--	-------------------------------	---------------------------	-------------------------	---------------

At 30 June 2017

Trade and other payables 10,051,615

At 30 June 2016

Trade and other payables 21,230,679

26. BUDGET VARIANCE

The annual budgets are prepared on accrual basis, the negative variance of **Kshs. (162.1 M)** under income was due to under collection of KShs. 1.4M under cost recoveries, Budgetary cut of KShs. 40M under development vote and additional Expo 2017 Astana Budget received towards the end of financial year 2016/17 amounting to KShs. 152M.

The positive variance of **Kshs. 4.2M** is due to budget cuts that were meted mid-stream during implementation when activities had already been rolled out and committed.

Rent/rates budget was over utilized by **Kshs. 4.4 M** due to service charge and rent increase on lease renewal while the board costs were exceeded by **Kshs. 2.4 M** due to recruitment of the CEO meetings which had been under budgeted.

The underutilization under staff costs by **Kshs. 15.9 M** was mainly due to unfilled position due to the circular that banned filling up of vacant positions. The embargo was partially lifted and the Council has since received approval to fill up the vacant position.

27. CONTINGENT LIABILITIES

The Council has a court case where a former employee has sued the failing to absorb him after completing his studies. Leave of absence had not been granted hence the Council could not reabsorb. The Council has not provided for any contingent liability on the matter.
