

REPUBLIC OF KENYA



*Laid on the table
of the House by Hon. D. Oluoch
(Kans) on 26.02.2015.*

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REPUBLIC OF KENYA

REPORT



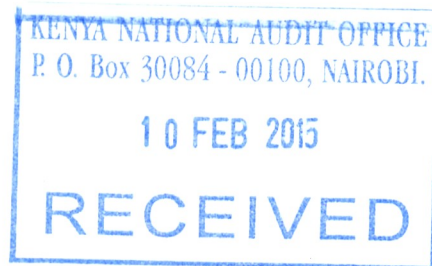
OF

**KENYA NATIONAL AUDIT OFFICE
THE AUDITOR-GENERAL**

ON

**THE FINANCIAL STATEMENTS OF
BRAND KENYA BOARD**

**FOR THE YEAR ENDED
30 JUNE 2014**



ANNUAL REPORT AND FINANCIAL STATEMENTS

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

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

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I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background Information

Brand Kenya Board is a State Corporation established in March 2008 under the state corporation Act, CAP 446 through a Legal Notice known as the Brand Kenya Board Order, No. 38 of 2008.

(b) Principal Activities

The Board's principal activity is to ensure an integrated national brand is created, harnessed and sustained in the long-term through;

- (a) Coordinating initiatives for marketing the country in order to maximize their efficiency; and
- (b) Creating and maintaining the Kenya brand and distinguish Kenyan products, services and concepts.

Specifically the functions of the Brand Kenya Board are:

- (a) Establish a brand for Kenya which positions the country optimally in terms of investments, tourism and international relations;
- (b) Unite Kenyans and provide them with positive information about the country in order to promote patriotism and national pride;
- (c) Establish an integrated approach within Government and the private sector towards the international marketing of Kenya
- (d) Build national support for the brand within Kenya with the cooperation of the Government, non-governmental organizations and the private sector;
- (e) Promote local products and services to encourage economic transformation;
- (f) Encourage commitment to quality and innovation among the businesses and people;
- (g) Assist the different towns and cities in the country to improve their image; and
- (h) Undertake measures aimed at improving the international image of Kenya.

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Key Management

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

- Board of Directors;
- Board Committees; and
- Management.

(c) Fiduciary Management

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

No.	Designation	Name
1.	Chief Executive Officer	Mrs. Mary Kimonye, EBS
2.	Director Marketing	Dr. Nzilu Musyoki
3.	Director Communications	Ms. Wanjiru Kangara
4.	Corporation Secretary	Ms Margaret Njuguna
5.	Finance Manager	Mr. Peter Mbage
6.	HR & Admin. Manager	Mr. Philip Koskei
7.	National Branding Manager	Mrs. Rose Asiimwe
8.	Internal Audit Manager	Ms. Margaret Waihenya

(d) Fiduciary Oversight Arrangements

The Board of Directors has established four Committees which have specific terms of reference to guide their operations. The Committees which meet on a quarterly basis are as follows:

Technical Committee

The Technical Committee's responsibility is to provide strategic direction in implementation of the mandate of Brand Kenya Board. This covers country branding, marketing and strategic communication.

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Human Resources and Administration Committee

The Human Resources and Administration Committee has an oversight responsibility over all human resource matters including recruitment of right caliber of staff as well as administrative issues.

Finance and Procurement Oversight Committee

The Finance and Procurement Oversight Committee undertakes an oversight role over finance and procurement matters in the Board.

Audit Committee

The Audit Committee supplements the undertakings of the Board of Directors in furtherance of its oversight role in:

- Ensuring the integrity of the Board's financial statements, including the review of accounting policies and practices adopted in preparation of financial information;
- Strengthening risk management and the internal control environment;
- Fostering compliance with legal and regulatory requirements, ethical guidelines and good Corporate Governance;
- Strengthening the Internal Audit function.

(e) Headquarters

P.O. Box 40500 - 00100
4th Floor, NHIF Building
Ragati Road, Upper Hill
Nairobi, KENYA

(f) Contacts

Telephone: (254) 20 2715236/7
E-mail: info@brandkenya.go.ke
Website: www.brandkenya.go.ke

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(g) Bankers

Kenya Commercial Bank
Capital Hill Branch
NHIF Building
P.O. Box 46360 - 00100
Nairobi, Kenya

(h) Independent Auditors

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

(i) Principal Legal Adviser

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

II. THE BOARD OF DIRECTORS



**Dr. Hannington Gaya, PhD., EBS.,
Chairman.**

DoB: 05/01/1958

Dr. Gaya holds a PhD (Commerce in Business Management), MBA (Strategic Management – First Class) and a Bachelor of Commerce (Marketing – First Class). He is the CEO of Media 7 Group Kenya Ltd, Council Member – MSK, Council Member – EA Branding Council, Secretary and past Chairman – Media Owners Association of Kenya.

State awards – EBS 2010.

Academic Awards – Best paper – Academy of International Business – US.

He has great experience in marketing, communications & management.



**Ms. Anne Musau
Alt. to the PS, Ministry of Tourism.**

DoB : 11/11/1955

Ms. Musau holds a Bachelor of Arts degree and a diploma in International relations from the University of Nairobi.

She has extensive experience in marketing, international conference organisation and domestic tourism exhibitions from various positions held in the Ministry of Tourism. She is currently the Ag. Director of Tourism.



**Mr. Hiram Mucheke
Alt. to the PS, Ministry of
Information, Communication &
Technology**

(No Longer a member)



**Amb. Andrew Kihurani
Alt. to the PS, Ministry of Foreign
Affairs**

DoB: 26/01/1962.

Amb. Kihurani holds a Bachelor of Arts degree from the University of Nairobi and a post graduate diploma in International Relations. He has extensive experience and has held various positions in the Ministry of Foreign affairs locally and in Kenya's missions abroad.



**Mr. Peter Mwaniki
Alt. to the PS, Ministry of Trade**

(No longer a member)



Mr. Waweru Kamau

Alt. to the PS, Ministry of State for Public Service

Mr. Waweru holds a MSc. From the University of Bradford, UK and a Bachelor of Arts (Economics) from the University of Nairobi.



**Ms. Lucy Kagwanja
Alt. to the Solicitor General**

DoB: 02/02/1966.

Ms. Kagwanja holds an LLM in International Legal Studies from American University and LLB from the University of Nairobi. She is an advocate of the High Court of Kenya and the Deputy Chief State Counsel, Attorney General's Office. She has great experience in negotiating, vetting and reviewing contracts on behalf of government ministries and agencies.



Ms. Judith Kibaki, CBS

DoB: 11/06/1962

Ms. Kibaki holds a Bsc. (Econ).

State Awards – MBS (2007), EBS (2010), CBS (2012).

She is a marketing & management Consultant.

She is experienced in advertising, management, marketing & market research.



Mr. Chris Diaz

Mr. Diaz holds a Masters in Science (International Marketing), Bachelor of Commerce (Hons) in accounting and a diploma in marketing. He is currently the Marketing Director at Kenya Airways. He is a trustee on the Board of Chartered Institute of Marketing (UK) and has held senior positions in the private sector in the area of marketing & communication.



Ms. Angela Nganga Mumo

DoB: 10/10/1973.

Ms. Nganga holds a Bachelor of Arts Degree – Concentration: Political Science – from the Punjab University, Chandigarh – India. She also holds a Masters Class Diploma from the Chartered Institute of Public Relations, United Kingdom. She is a corporate affairs professional with over 15 years' experience in developing and managing brands. She is the Secretary of the PRSK and also serves as a council member in the MSK.



Eng. David Mutinda Mutuku

DoB: 30/05/1960.

Eng. Mutuku holds a Bachelor of Science (Hons) in Civil Engineering from the University of Nairobi and has many years experience in both private and public sectors. He has also attended many specialized training programmes in diverse areas locally and abroad.



Ms. Margaret M. Kositany

Ms. Kositany holds a Master of Business Administration from Curtin University, Australia and a Bachelor of arts (Hons) in Economics and Business administration from Kenyatta University. She has over 18 year's domestic, regional and international experience in leadership, marketing and communication within the telephony and other industries.



**Mrs. Mary Kimonye, MBS.
CEO & Secretary to the Board**

DoB: 26/08/1961

Ms. Kimonye holds a B. Com. and an MBA from the University of Nairobi. Currently pursuing a PhD in Business Administration at the University of Nairobi. She is a seasoned scholar with. She has a distinguished and successful career and accomplishments in academic, consulting and advisory in both the private and public sector.



**Ms. Margaret Njuguna
Corporation Secretary**

DoB: 01/08/1963

Ms. Njuguna holds an LLB degree and a B. Ed from the University of Nairobi, a Diploma in law from the Kenya school of Law, and Masters in Governance and Ethics from Mount Kenya University. She is a Certified Public Secretary (CPSK) and an Advocate of the High Court of Kenya.

III. MANAGEMENT TEAM



**Mrs. Mary Kimonye, MBS.
Chief Executive Officer**

DoB: 26/08/1961

Ms. Kimonye holds a Bachelor of Commerce and an MBA from the University of Nairobi. Currently pursuing a PhD in Business Administration at the University of Nairobi. She is a seasoned scholar with special interest in marketing, brand and organisational development. She has a distinguished and successful career and accomplishments in academic, consulting and advisory in both the private and public sector.



**Dr. Nzilu Musyoki
Director Marketing**

DoB: 22/06/1970

Dr. Nzilu Musyoki holds a PhD in Management from the Australian National University, an MBA from Makerere University and a Bachelor of Commerce (marketing) from the University of Nairobi. Dr. Nzilu has more than 10 years of valuable experience in management in both middle level and senior management positions across the public and corporate sector. Dr. Nzilu Musyoki holds invaluable experience in research, public policy & diplomacy, and place branding.



**Ms. Wanjiru Kangara
Director, Strategic Communication**

DoB: 28/03/1973

Ms. Kangara has a Bachelor of Arts degree and a Masters Degree in Communications from the University of Nairobi. She has over seven years experience in the communications field from various positions in both private and public sector.



**Mr. Peter Mbage
Finance Manager**

DoB: 28/09/1978

Mr. Mbage holds a Bachelor of Commerce (Accounting) and an MBA from Moi University. He is both a CPA (K) and CPS (K) and a member of the Institute of Certified Public Accountants of Kenya and the Institute of Certified Public Secretaries of Kenya.

He has great experience in both audit and financial management from various positions held in both the corporate and public sectors.



**Mr. Philip Koskei
HR & Administration Manager**

DoB: 25/03/1971

Mr. Koskei holds a Bachelor of Arts in Government and Public Administration from Moi University and a Higher Diploma in Human Resource Management. He is a member of the Institute of Human Resource management, Kenya.

He has 19 years experience in Hr and administration acquired from various management positions in both private and public sector.



**Ms. Margaret Waihenya
Internal Audit Manager**

DoB: 17/02/1970

Margaret holds a B.Com (Accounting) from Kenyatta University. She is a CPA (K) and a certified information systems auditor (CISA). She has 19 years experience in Audit, Risk Management and Finance acquired while working in both public and private sector. She has worked at Brand Kenya since 2009. Prior to that, she was the Chief Internal Auditor for Kenya Seed Company, covering the East Africa Region.

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**Mrs. Rose Asiimwe
National Brand Manager**

DoB: 25/12/1969

Ms. Asiimwe holds an MBA from Strayer University, USA and BA in Social Sciences from Makerere University. She has attended short course specialized training in marketing, protocol and executive etiquette in Washington D.C and Algonquin College, Ottawa, Canada. She has vast experience in marketing products and places, communication and advocacy, national branding and diplomatic services.



**Ms. Margaret Njuguna
Corporation Secretary**

DoB: 01/08/1963

Ms. Njuguna holds an LLB degree from the University of Nairobi, Diploma in law from the Kenya school of Law, B. ED from University of Nairobi and Masters in Governance and Ethics from Mount Kenya University. She is a CPS (K), a member of the Institute of Certified Secretaries of Kenya and an advocate of the High Court of Kenya.

IV. CHAIRMAN'S STATEMENT

The year that ended 30th June 2014 was a fruitful period for Kenya. The country maintained its commands and respect as a top destination for doing business in Africa. This was further ascertained after Kenya held its inaugural elections under a new constitution. The manner in which the whole electoral process was handled has continued to boost confidence for both local and international investors boosting economic growth.

On behalf of the Board of Directors, Management and Staff of Brand Kenya Board, I am therefore pleased to present to you the Annual report for the Financial Year 2013- 2014. The Board operates under the mandate of ensuring that a national brand is created and sustained. Developing and maintaining a unified identity is no mean feat and the Board is grateful to all stakeholders and Kenyans who have been part of this tremendous journey. To ensure that our mandate is fully entrenched within government, the Board was realigned to the Ministry of East Africa Affairs Commerce and Tourism. We welcome this move and look forward to serving the nation in this new ministry.

Globalization as we all know has heightened competition amongst countries and countries have the enormous task of managing their reputations to gain a competitive edge in a branded and globalized world. Brand Kenya Board continues to identify ways to leverage on our promising products which include athletes, culture, export goods and wildlife; in essence a country "bursting with generosity" to promote Kenya.

Despite Kenya's efforts to manage her reputation the nation received mixed reviews which impacted both positively and negatively on the Brand. Kenya's image during this period was dented mainly because of the security threats posed by isolated terrorist attacks which resulted to travel advisories from certain countries.

The tourism sector was the hardest hit as the numbers of visitors into the country, especially visiting the Kenyan Coast declined. To drive economic growth, the government put in place sound strategies

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for key sectors like tourism and security which were negatively impacted. The President took personal responsibility and set up a tourism recovery task force to address these challenges. Security measures were on top of the agenda as the country tightened security. Of note however is the fact that Kenyans stood united after the unfortunate attacks.

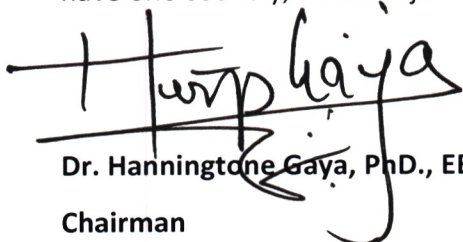
Nonetheless the economy continued to grow steadily with several multinational corporations setting up offices in Nairobi. General Motors opened a bus body building in Nairobi for its Isuzu buses and IBM launched a research in Nairobi, the first of its kind in Africa. Kenya is now home to the newly upgraded United Nations Environmental Assembly (UNEA) formerly the United Nations Environment Program (UNEP). The inaugural UNEA conference was held in Kenya, strengthening the countries status globally.

Going forward, the Board will redouble its effort to market the country abroad. We welcome partnership from all stakeholders be they in the private, public or individuals. The task of changing the image and perception of this great country lies in all our hands.

Moving forward, we are very optimistic that the Country's prospects will continue to grow, despite the challenges that we may encounter. As Brand Kenya Board, we believe we have the right human capital in place. I am confident that the Board will continuously improve on efficiencies and its programs, to make Kenya a competitive investment and tourism destination.

I would like to thank the Management team and staff of Brand Kenya Board for their superb performance and call upon them to continue with the same degree of dedication. To my fellow Board members, I thank you for your time and commitment in supporting the Board's management team based on your collective expertise.

My appeal to all citizens is to appreciate our country and to take pride in it. Amidst everything we have one country, so let us join hands and make Kenya shine regionally and globally.


Dr. Hannington Gaya, PhD., EBS
Chairman

V. REPORT OF THE CHIEF EXECUTIVE OFFICER

Another year has ended and I am humbled to bring to you review of the Board's programs highlighting our achievements and performance during the year 2013/2014. The year under review was truly remarkable as it coincided with Kenya's Jubilee celebrations marking 50 years after independence. As we celebrated the anniversary we reflected on Kenya's glorious past as we look into the future with anticipation. Citizens came together to celebrate the country's achievements in key areas as the nation continued to flourish.

The Board has remained steadfast in carrying out its mandate. At the national level, the year was uniquely both challenging and rewarding in equal measures. Hot on the heels were isolated security incidents that affected the tourism industry. We remember the family and friends of those who lost their lives in various terror attack incidences all over the country among them, Westgate, Tana River, Mombasa, and Garissa. Following suit, the international community issued travel advisories which went on to further worsen the situation. Based on this, revenues from tourism dropped significantly.

Kenya continued to rise and showed remarkable growth in the financial sector. The Eurobond sale was very successful and similarly, foreign investors continued to set up their business headquarters for Africa in Kenya. Prospects were forthcoming in the Hospitality, Oil and mining, financial and telecommunications sectors among other.

In a bid to decentralize country branding, the Board initiated a working relationship with counties as part of the County Branding program. This aimed at building capacity and creating understanding of County Branding concept in the counties. The Board held engagements with counties such as: Kajiado, Machakos, Marsabit, Uasin Gishu, Nandi, Bomet, Laikipia, West Pokot, Baringo, Homa Bay, Trans Nzoia, Turkana and Muranga. We anticipate that counties will continue to promote counties as centers of trade and investment.

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As is the norm, the Board conducted a National Brand Audit to gauge Kenyan's attitude towards the Nation, with regard to pride, patriotism and future aspirations. The survey showed that Kenyans hold their Nation in high esteem and will continue to work diligently to make Kenya a better place to work and live in. This resonates with the fact that Kenyans are resilient and hardworking, hospitable and optimistic about the future of their country. In the same study, Kenya's sportsmen and women and specifically our World class athletes, emerged as the top key Brand promoters. Their exemplary performance and record breaking wins, have earned Kenya accolades and created awareness and Brand recognition for the Country in the world stage. The results from this survey will inform formulation of strategies to enhance Kenya's image and promote the country's key attractions.

In the words of H.E President Uhuru Kenyatta: "For us to succeed we must pull together and we must unite". The Board continues to strengthen its partnerships with all its stakeholders who include government, civil society, corporate sector and individuals. The year also saw the Board initiate partnerships with government agencies with a view of developing an integrated mechanism within government for country image building. The Board also partnered with the Ministry of Sports and Culture in the planning and participation in the Smithsonian Folk life Festival "Kenya Mambo Poa" held in Washington DC, USA. The festival was devoted to showcasing Kenya's diverse potential and strengths in culture, tourism, trade, investment and diplomacy. The principle objective of Kenya's participation in the festival was to increase Kenya's visibility in USA and the rest of the world with the aim of attracting more investments, tourists and visitors.

The other focus during the year has been on trade marking Kenyan products of quality. The call for adoption of the mark of identity with the buy line "A touch of Kenya" was rolled out. This is in view of the fact that Kenya produces high quality products for export which later on lose their Kenyan identity in the world market. The Board in conjunction with manufactures worked towards branding Kenyan export products to enhance their presence and visibility. We appreciate companies which have adopted the mark and appeal to those who haven't to do so.

On behalf of the Brand Kenya Board, I wish to thank the *Ministry of East African Affairs, Commerce and Tourism* for their support. We are very grateful to the Cabinet Secretary, Hon. Phyllis Kandie in

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driving greater co-operation between the various entities tasked with marketing Kenya locally and abroad.

The Board acknowledges the support and cooperation from our stakeholders. There are immense opportunities for Brand Kenya Board to work with other stakeholders in Tourism, Hospitality, Conservation, Investment, Education, Agriculture, County Branding, Sports, Culture, Entertainment and much more, to collectively build a distilled and coordinated brand for marketing Kenya. We look forward to continued partnership with them.

To the Board members, thank you for the dedication to serving Brand Kenya Board, your contribution to building our Nation is greatly valued. I acknowledge the talent and commitment of Brand Kenya Board's staff which has continued to infuse great enthusiasm in sharing the Kenyan narrative, while at the same time demonstrating professionalism and efficiency.

Finally, to those Kenyans, both at home and abroad, who live up to our national values, thank you for flying our national flag high and for so generously embracing and spreading the Kenyan spirit.

Brand Kenya Board will continue to implement all inclusive initiatives to harness Kenya's potential in all sectors and above all, get Kenyan citizens to support brand building efforts. I urge all Kenyans to support the Board in this epic journey and to play their role in making Kenya the best place to work, live and invest in. God bless Kenya!



Mrs. Mary Kimonye, MBS

Chief Executive Officer

VI. CORPORATE GOVERNANCE STATEMENT

Introduction

Corporate governance is the process by which organizations are directed and controlled. Brand Kenya Board recognizes the need to conduct its business and operations with integrity and in accordance with the principles of good corporate governance. The Board of Directors is committed to continued adherence to the highest standards of good corporate governance and business ethics in Brand Kenya Board's operations.

The Board of Directors

The members of the Board of Directors are shown on pages vi to x. The Board is chaired by a Non-Executive Chairman and all the Directors have extensive business and administrative experience in private and public sectors that is applied for the benefit of Brand Kenya Board.

The principal responsibility of the Board of Directors is to establish the long term goals of Brand Kenya Board. The Board also ensures that effective plans are developed and implemented. The responsibilities entail:

- Providing the vision, mission, strategic direction and upholding the core values;
- Putting in place management structures (organization, systems and human capital) to achieve these goals;
- Ensuring targets are set and monitoring performance;
- Guiding the implementation of strategic decisions and actions and advising management as appropriate;
- Reviewing and adoption of annual budgets;
- Ensuring management of risk, overseeing the implementation of adequate internal control systems, compliance with relevant laws and regulations, and compliance with accounting and auditing standards.
- Ensuring the preparation of annual financial statements and reports.

The Board of Directors met four times in the year under review. The allowances, honoraria and other expenses related to the Board of Directors are disclosed in Note 7 to these financial

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statements. The Board of Directors has established four Committees which have specific terms of reference to guide their operations. The Committees which meet on a quarterly basis are as follows:

Technical Committee

The Technical Committee's responsibility is to provide strategic direction in implementation of the mandate of Brand Kenya Board. This covers country branding, marketing and strategic communication. The Committee held four meetings during the year under review.

Human Resources and Administration Committee

The Human Resources and Administration Committee has an oversight responsibility over all human resource matters including recruitment of right caliber of staff as well as administrative issues. During the year under review the Committee held thirteen meetings.

Finance and Procurement Oversight Committee

The Finance and Procurement Oversight Committee undertakes an oversight role over finance and procurement matters in the Board. The Committee held four meetings during the year under review.

Audit Committee

The Audit Committee supplements the undertakings of the Board of Directors in furtherance of its oversight role in:

- Ensuring the integrity of the Board's financial statements, including the review of accounting policies and practices adopted in preparation of financial information;
- Strengthening risk management and the internal control environment;
- Fostering compliance with legal and regulatory requirements, ethical guidelines and good Corporate Governance;
- Strengthening the Internal Audit function.

The committee met five times during the year under review.

VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

In executing its mandate, Brand Kenya Board is committed to behaving ethically and responsibly, to contribute to economic development while improving the quality of life of its employees and their families as well as the local community and the society at large.

Currently the Board does not have a Corporate Social Responsibility (CSR) policy in place, but foresees putting this in place in the next Financial Year. Nevertheless, as a parastatal most of our CSR activities and projects focus on engaging Kenyans in an effort to inculcate a value based lifestyle and environmental conservation.

Some of our notable activities in the year under review include; tree planting in various schools, clean up exercises and participation in CSR related marathons. The Board initiated a campaign “I am Kenya, I am making a difference” with the aim of urging citizens to take part in the wellbeing of their environment. This is in the realization that nation branding cannot succeed if the citizens do not live the promise of the brand.

In the wake of environmental degradation and global warming, the Board also nurtures students to take care of the environment and has been keen to spread the message of “My environment my responsibility” to students. This has been done in partnership with secondary schools in Machakos, Eldoret, Nairobi, among others.

In undertaking its activities, the Board shall continue to forge public private partnerships to ensure that it makes a positive difference in the society.

VIII. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 30th June 2014 which show the state of the *Board's* affairs.

Principal activity

The principal activity of the Board is to ensure an integrated national brand is created, harnessed and sustained in the long-term.

Results

The results of the Board for the year ended 30th June 2014 are set out on page 1.

Directors

The members of the Board of Directors who served during the year are shown on page *vi*.

IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 82 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of the Board's, which give a true and fair view of the state of affairs of the *Board* at the end of the financial year and the operating results of the *Board* for that year. The Directors are also required to ensure that the *Board* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *Board*. The Directors are also responsible for safeguarding the assets of the *Board*.

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

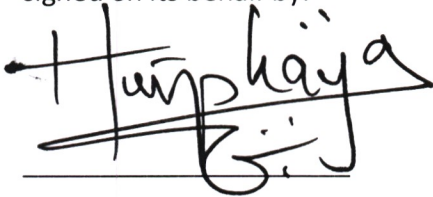
The Directors accept responsibility for the *Board's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required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

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Nothing has come to the attention of the Directors to indicate that the *Board* 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 *Board's* financial statements were approved by the Board on 31st July 2014 and signed on its behalf by:



Chairman of the Board



Secretary to the Board

REPUBLIC OF KENYA

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Fax: +254-20-3311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



NAIROBI HUB
P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON BRAND KENYA BOARD FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Brand Kenya Board as set out on pages 1 to 20, which comprise statement of financial position as at 30 June 2014, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparative of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

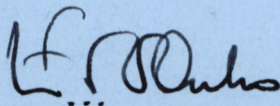
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the

auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Board as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the Brand Kenya Board Order, 2008.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

3 February 2015

XI. STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2014

	Note	2013-2014 Kshs	2012-2013 Kshs
Revenue from Non-Exchange Transactions			
Government Grants	3	136,743,000	192,056,000
Revenue from Exchange Transactions			
Other Income	4	<u>2,902,979</u>	<u>453,495</u>
Total revenue		139,645,979	192,509,495
Expenses			
Staff Costs	5	56,136,162	53,149,586
Operating Expenses	6	61,535,917	153,162,805
Board Expenses	7	14,727,702	14,573,878
Depreciation & Amortization	8	10,422,278	2,916,306
Provision for Audit Fees	9	<u>348,000</u>	<u>348,000</u>
Total expenses		143,170,058	224,150,575
Other gains/(losses)			
Gain/(Loss) on sale of assets	10	<u>(41,625)</u>	<u>222,000</u>
Surplus/(Deficit) for the period		<u>(3,482,454)</u>	<u>(31,863,080)</u>


The notes set out on pages 6 to 20 form an integral part of the Financial Statements.

Brand Kenya Board
Financial Statements
As at 30th June, 2014

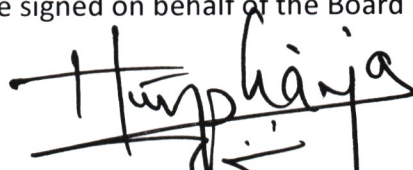
XII. STATEMENT OF FINANCIAL POSITION
As at 30 June 2014

	Note	2013-2014 Kshs	2012-2013 Kshs
Assets			
Current assets			
Cash and cash equivalents	11	70,481,289	71,661,864
Receivables from exchange transactions	12	3,780,213	3,563,493
Receivables from non-exchange transactions	13	1,794,062	19,771,943
		76,055,564	94,997,300
Non-current assets			
Property, Plant and Equipment	14	11,875,208	13,997,334
Intangible assets	15	3,662,347	2,337,768
		15,537,555	16,335,102
Total assets		91,593,119	111,332,402
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	16	11,319,887	30,283,008
Provisions	17	7,833,920	2,041,855
Payroll liabilities	18	23,789	66,189
		19,177,596	32,391,052
Non-current liabilities			
Non-current provisions (Gratuity)	17	558,000	3,601,373
Total liabilities		19,735,596	35,992,425
Net assets		71,857,523	75,339,997
Reserves	28	71,857,523	75,339,997

The Financial Statements set out on pages 1 to 20 were signed on behalf of the Board of Directors by:


 Chief Executive Officer

Date: 26/1/2015


 Chairman of the Board

Date: Jan 27 2015

XIII. STATEMENT OF CHANGES IN NET ASSETS
For the year ended 30 June 2014

	General Reserve	Reserves Revaluation Reserve	Total
	Kshs	Kshs	Kshs
Balance as at 30 JUNE 2012	103,023,057	-	103,023,057
Surplus/(deficit) for the period	<u>(31,863,080)</u>	<u>4,180,000</u>	<u>(27,683,080)</u>
Balance as at 30 JUNE 2013	71,159,977	4,180,000	75,339,977
Surplus/(deficit) for the period	<u>(3,482,454)</u>	-	<u>(3,482,454)</u>
Balance as at 30 JUNE 2014	<u>67,677,523</u>	<u>4,180,000</u>	<u>71,857,523</u>

Brand Kenya Board
Financial Statements
As at 30th June, 2014

XIV. STATEMENT OF CASH FLOWS

	Note	2013-2014 Kshs	2012-2013 Kshs
Cash flows from operating activities			
Operating Surplus/(deficit)		(3,482,454)	(31,863,080)
Adjustments for:			
Depreciation	14	8,582,404	2,898,906
Amortization	15	1,839,874	17,400
Gain/(Loss) on disposal of fixed asset	10	(41,625)	222,000
Operating surplus/(deficit) before working capital changes		6,898,199	(28,724,774)
Changes in working capital			
Decrease/(increase) in debtors and prepayments		17,761,161	(18,727,022)
Increase/(decrease) in creditors and provisions		(16,256,829)	(3,978,171)
Net cash flows from changes in working capital		1,504,332	(22,705,193)
Net cash flows from operating activities		8,402,530	(51,429,967)
Cash flows from investing activities			
Purchase of property, plant & equipment	14	(6,460,277)	(4,413,061)
Purchase of intangible assets	15	(3,164,453)	(2,355,168)
Proceeds from disposal of equipment	10	41,625	-
Net cash flows used in investing activities		(9,583,105)	(6,768,229)
Net increase/(decrease) in cash and cash equivalents		(1,180,575)	(58,198,196)
Cash and cash equivalents at 1 JULY	11	71,661,864	129,860,059
Cash and cash equivalents at 30 JUNE	11	70,481,289	71,661,864

XV. STATEMENT OF COMPARATIVE OF BUDGET AND ACTUAL AMOUNTS

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2013-2014	2013-2014	2013-2014	2013-2014	2013-2014
	Kshs	Kshs	Kshs	Kshs	Kshs
Revenue					
Government grants	146,699,000	(9,956,000)	136,743,000	136,743,000	-
Other Income	-	2,902,979	2,902,979	2,902,979	-
Total income	146,699,000	(7,053'021)	139,645,979	139,645,974	-
Expenses					
Compensation of employees	68,572,092	9,929,325	58,642,767	56,136,162	2,506,605
Operating expenses	56,507,708	9,874,776	66,382'484	61,535,916	4,846'568
Board expenses	15,619,200	-	15,619,200	14,727,702	891,498
Depreciation & amortization	5,000,000	(600,000)	4,400,000	10,422,278	(6,022,278)
Provision for audit fees	350,000	-	350,000	348,000	2,000
Loss on disposal of property, plant & equipment	-	-	-	(41,625)	41,625
Total expenditure	146,049,000	(654,549)	145,394,451	143,128,433	2,266,018
Surplus/(deficit) for the period	650,000	(6,398,472)	(5,748,472)	(3,482,454)	(2,266,018)

The Kshs. 2.2 million difference between the budget and actual is mainly due to staff who left employment of the Board during the year and austerity measures taken by management to cut on costs.

XVI. NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance and basis of preparation

The Board's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is 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

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 Board and can be measured reliably.

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 Board and the fair value of the asset can be measured reliably.

ii) Revenue from exchange transactions

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. 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

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

amount. The method applies this yield to the principal outstanding to determine interest income each period.

b) Budget information

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or 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) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. 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.

Revaluation will be done every five years and assets stated at valuation less accumulated depreciation and impairment losses. Any accumulated depreciation will be eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. Decreases that offset previous increases of same assets will be charged against the revaluation reserve. Increase in carrying amount on revaluation will be credited to a revaluation reserve in the accumulated fund. The carrying amount of replaced asset will be derecognized.

Depreciation is calculated on the straight line basis at annual rates to write off the cost of assets over their estimated useful lives by equal annual instalments at the following rates;

(a) Motor Vehicles	25%
(b) Office Equipment	12.5%
(c) Furniture & Fittings	12.5%
(d) Computers	33%

d) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs,

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

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 finite. Amortisation is calculated on a straight line basis at 33.33% per annum.

e) Leases

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

f) Financial Instruments

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 Board 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.

Impairment of financial assets

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

- 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 Entity determines the classification of its financial liabilities at initial recognition.

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

Loans and borrowing

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

g) Provisions

Provisions are recognized when the Board 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 Board 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.

h) Contingent liabilities

The Board 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

i) Contingent assets

The Board 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 Board 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.

j) Nature and purpose of reserves

The Board creates and maintains reserves in terms of specific requirements.

Revaluation reserve

This represents surplus on revaluation of Property, plant and equipment. Three motor vehicles that had been fully depreciated were revalued at the end of the previous financial year to reflect their current market value.

k) Changes in accounting policies and estimates

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

l) Employee benefits

Retirement benefit plans

The Board 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.

The Board currently contributes to a defined contribution pension scheme at the rate of 15% of basic pay and to the National Social Security Fund (NSSF) as provided in the relevant statute.

Employee entitlements

The estimated monetary liability for accrued employee annual leave entitlement at the statement of financial position reporting date is recognized as an expense in the statement of financial performance

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

and accrued in the statement of financial position. Employee's entitlement to gratuity are recognized when they accrue and a provision for the liability is made in the statement of financial position.

m) Foreign currency transactions

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.

n) Related parties

The Board 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 Board, or vice versa. Members of key management are regarded as related parties.

o) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank. Bank account balances include amounts held at the Kenya Commercial Bank at the end of the financial year.

p) Comparative figures

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

q) Significant judgments and sources of estimation uncertainty

The preparation of the Board'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.

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 Board based its assumptions and estimates on parameters available when the 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 Board. Such changes are reflected in the assumptions when they occur.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

Useful lives and residual values

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 17.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date.

r) Subsequent events

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

3. Government Grants

	2014	2013
	Kshs	Kshs
Grants received in the year	136,743,000	192,056,000
Total	136,743,000	192,056,000

4. Other Income

	2014	2013
	Kshs	Kshs
Income from sale of tenders	60,000	453,495
Interest Income	1,951,979	-
Invoice to Ministry of Environment (Production of promotional video for IPBES secretariat bidding)	891,000	-
Total	2,902,979	453,495

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

5. Staff Costs

	2014	2013
	Kshs	Kshs
Salaries & wages	50,160,791	50,221,536
Provision for accrued leave	85,172	(777,103)
Pension & NSSF contributions	4,565,879	2,318,833
Provision for gratuity	1,324,320	1,386,320
Total	56,136,162	53,149,586

6. Operating Expenses

	2014	2013
	Kshs	Kshs
Bank charges	85,180	118,261
Internet Connectivity	730,600	567,331
Cleaning and sanitation services	401,520	464,365
Staff recruitment and training	3,926,949	3,393,953
Staff uniforms	366,299	57,584
R & M – motor vehicles	1,753,313	1,131,128
R & M – Office equipment	873,283	479,423
Office rent & deco	10,779,994	9,958,937
Telephone & postage	2,619,310	2,683,773
Stationery, publishing & printing	1,083,939	2,545,606
Entertainment	288,724	240,436
Travelling & accomodation	5,491,861	5,579,906
General office expenses	1,620,617	1,454,016
Publicity, advertising & communication	20,604,683	114,308,065
Subscriptions	1,137,734	1,613,477
Insurance	7,655,338	5,495,247
Contracted professional services	2,116,574	3,071,297
Total	61,535,917	153,162,805

7. Board Expenses

	2014	2013
	Kshs	Kshs
Sitting allowances	5,799,000	5,070,783
Chairman's honoraria	960,000	960,837
Training, travel & other expenses	339,502	963,058
CEO's emoluments	6,290,000	6,240,000
CEO's gratuity	1,339,200	1,339,200
Total	14,727,702	14,573,878

NOTES TO THE FINANCIAL STATEMENT (CONT.)

8. Depreciation and Amortization Expenses

	2014	2013
	Kshs	Kshs
Property, plant and equipment	8,582,404	2,898,906
Intangible assets	1,839,874	17,400
Total	10,422,278	2,916,306

9. Provision for Audit Fees

This is the fees expected to be paid to the Auditor General for audit services for the year under review.

10. Gain /(Loss) on Disposal of Property, Plant & Equipment

	2014	2013
	Kshs	Kshs
Cost	77,000	677,500
Accumulated depreciation	(77,000)	(455,500)
Net Book Value	0	222,000
Write off / Compensation	41,625	0
Less: Net Book Value	0	(222,000)
Gain / (Loss)	41,625	(222,000)

11. Cash and Cash Equivalents

	2014	2013
	Kshs	Kshs
Bank	70,448,162	71,627,680
Cash-on-hand	33,127	34,184
Total cash and cash equivalents	70,481,289	71,661,864

12. Receivables from Exchange Transactions

	2014	2013
	Kshs	Kshs
Trade Receivables	44,156	-
Rent deposit (NHIF)	1,743,850	1,731,850
Prepaid Insurance	1,992,207	1,831,643
Total	3,780,213	3,563,493

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

13. Receivables from Non-Exchange Transactions

	2014	2013
	Kshs	Kshs
Receivable from MOIC	-	19,534,000
Staff debtors	1,794,062	237,943
Total	1,794,062	19,771,943

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

14. Property, Plant and Equipment

Cost/Valuation	Equipment Kshs	Computers Kshs	Furniture & Fittings Kshs	Motor Vehicles Kshs	Total Kshs
At 1 July 2012	2,118,108	4,824,489	10,489,669	8,750,857	26,183,123
Additions	1,052,540	2,068,381	1,292,140	-	4,413,061
Disposals	(434,200)	(243,300)	-	-	(677,500)
Revaluation	-	-	-	4,180,000	4,180,000
At 30 June 2013	2,736,448	6,649,570	11,781,809	12,930,857	34,098,684
Additions	11,495	800,782	-	5,010,000	5,822,277
Transfer from WIP	348,000	290,000	-	-	638,000
Disposals	-	(77,822)	-	-	(77,822)
At 30 June 2014	3,095,943	7,662,530	11,781,809	17,940,857	40,481,139
Depreciation					
At 1 July 2012	653,990	4,193,271	4,059,828	8,750,856	17,657,945
Depreciation	342,056	1,083,852	1,472,998	0	2,898,906
Disposals	(212,200)	(243,300)	-	-	(455,500)
At 30 June 2013	783,846	5,033,823	5,532,826	8,750,855	20,101,350
Depreciation	386,993	1,289,883	1,473,028	5,432,500	8,582,404
Disposals	-	(77,822)	-	-	(77,822)
At 30 June 2014	1,170,839	6,245,884	7,005,854	14,183,354	28,605,931
Net Book Values					
At 30 June 2014	1,925,104	1,416,646	4,775,955	3,757,501	11,875,208
At 30 June 2013	1,952,602	1,615,747	6,248,983	4,180,000	13,997,334

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

15. Intangible Assets

Cost	Software Kshs	Work in Progress Kshs	Total Kshs
At 1 July 2012	52,200	-	52,000
Transfer from prepayments	-	1,151,484	1,151,484
Additions	52,200	1,151,484	1,203,684
At 30 June 2013	104,400	2,302,968	2,407,368
Transfer from prepayments	-	3,454,453	3,454,453
Transfer to fixed assets	-	(5,757,421)	(5,757,421)
Additions/Transfer from WIP	5,467,421	-	5,467,421
At 30 June 2014	5,571,821	-	5,571,821
Amortization			
At 1 July 2012	52,200	-	52,200
Amortization	17,400	-	17,400
At 30 June 2013	69,600	-	69600
Amortization	1,839,874	-	1,839,874
At 30 June 2014	1,909,474	-	1,909,474
Net Book Values			
As at 30 June 2014	3,662,347	-	3,662,347
As at 30 June 2013	34,800	2,302,968	2,337,768

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

16. Trade and Other Payables from Exchange Transactions

	2014	2013
	Kshs	Kshs
Trade payables	11,319,887	30,283,008
Total	11,319,887	30,283,008

17. Provisions

Current Provisions

	Audit Fees	Leave Benefits	Gratuity	Total
	Kshs	Kshs	Kshs	Kshs
Balance at the beginning of the year	348,000	1,693,855	3,601,373	5,643,228
Additional provisions raised	348,000	85,172	2,105,520	2,538,692
Provision utilized	(348,000)	-	-	(348,000)
Balance as at 30 June 2014	348,000	1,779,027	5,706,893	7,833,920
Non-current Provisions	-	-	558,000	558,000
Total	348,000	1,779,027	6,264,893	8,391,920

18. Payroll Liabilities

	2014	2013
	Kshs	Kshs
Payroll Liabilities	23,789	66,189
Total	23,789	66,189

19. Financial Risk Management

The Board's risk management strategy recognises the various risks the Board is exposed to including credit risk and liquidity risk. This is based on a clear understanding of the risks and continuous risk assessment, measurement and monitoring.

The Board's overall risk management programme focuses on the unpredictable changes in the business environment and seeks to minimize the potential adverse effects of such risks on its performance. The Board does not hedge any risks but has in place policies that ensure that any credit advanced is at minimum risk.

Credit Risk

Credit risk is the risk that a borrower is unable to meet his financial obligations to the lender. The Board's credit risk is attributable to its cash and cash equivalents and trade receivables. The amounts presented in

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

the financial statements are net of allowances for doubtful receivables, estimated by the Board's management based on their assessment of the economic environment.

Both bank balances and trade receivables are fully performing and no debt has been impaired. The amount that best represents the Board's maximum exposure to credit risk is made up as follows;

	Total Amount (Kshs)	Fully Performing (Kshs)	Past Due (Kshs)	Impaired (Kshs)
At 30 June 2014				
Bank Balances	70,481,289	70,481,289	-	-
Receivables from exchange transactions	5,530,119	5,530,119	-	-
Receivables from non-exchange transactions	-	-	-	-
At 30 June 2013				
Bank Balances	71,661,864	71,661,864	-	-
Receivables from exchange transactions	3,801,436	3,801,436	-	-
Receivables from non-exchange transactions	19,534,000	19,534,000	-	-

Liquidity Risk

Prudent liquidity risk management includes maintaining sufficient cash to meet company obligations. The ultimate responsibility for liquidity risk management rests with the management which has built an appropriate liquidity risk management framework for management of the Board's short, medium and long term funding requirements. The Board manages liquidity risk by maintaining adequate cash reserves to ensure liabilities are paid as they fall due and to cushion against any liquidity risk.

The table below shows the Board's financial liabilities that will be settled on a net basis. The amounts disclosed are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 month (Kshs)	Between 1 and 3 months (Kshs)	Over 3 months (Kshs)
At 30 June 2014			
Trade payables	11,299,520	-	-
At 30 June 2013			
Trade payables	30,349,197	-	-

Capital Risk

The objective of the Board's capital risk management is to safeguard the Board's ability to continue as a going concern. The Board's capital structure comprises of general fund and revaluation reserve as follows;

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

	2014 (Kshs)	2013 (Kshs)
General Fund	67,677,523	71,159,977
Revaluation Reserve	4,180,000	4,180,000
Total	71,857,523	75,339,977

20. Events after the reporting period

There are no material non-adjusting events after the reporting date.

21. Currency

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

22. Contingent liabilities

The Board was not aware of any contingent liabilities at the end of the financial year.

23. Capital Commitments

The Board did not have any capital commitments at the end of the financial year.

24. Taxation

The Board is established under the State Corporations Act and is fully funded by the exchequer and hence does not pay taxes.

25. Ultimate and Holding Companies

The Board is a state corporation under the Ministry of East African Affairs, Commerce and Tourism. Its ultimate parent is the Government of Kenya.

26. Operating Lease Commitments

The Board's lease with Crystal Valuers Limited, the managing agents for the landlord (NHIF) will expire on 30th June 2015. The current lease obligation is Kshs. 10,764,584.00

27. Related Party Disclosures

The Board has the following annual expenses payable to related parties.

	2014 (Kshs.)	2013 (Kshs.)
Management Personnel Compensation	28,829,100.00	25,997,623.00
Staff Annual Gratuity	2,849,520.00	2,725,520.00
Board Allowances & honoraria	<u>6,759,000.00</u>	<u>6,031,620.00</u>
Total	<u>38,437,620.00</u>	<u>34,754,763.00</u>

28. Reserves

	Kshs.	Kshs.
Balance as at 1st July	75,339,977.00	103,023,057.00
Surplus/(deficit) for the period	<u>(3,482,454.00)</u>	<u>(27,683,080.00)</u>
Balance as at 30 th June	<u>71,857,523.00</u>	<u>75,339,977.00</u>

XVII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.1	<p>Lack of Scheme of Service The audit of personnel / employment costs as presented in the financial statements for the financial year 2012/2013 confirmed that the Board has been operating without a scheme of service which is in contravention of the provisions of the Public Sector Human Resource Management and in line with best management practices.</p>	<p>The development of Scheme of Service was commenced in 2011 with a tender award to Ms Jena Management Consultant. The consultant failed to complete the contract and the same was terminated on 20th February 2013.</p> <p>Following the cancellation of tender, the Board approved the engagement of the Management Consultancy Services of the Ministry of State for Public Services to develop the Schemes of Service. The ministry requested to commence development of the Scheme of service after completion of the Remuneration and Staff Benefits Survey they undertook on behalf of</p>	Human Resource & Admin Manager	Not Resolved	30 th June 2015

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		<p>the Board. The exercise is planned to commence in November 2013 and will be concluded in December 2013.</p>			
1.7	<p>Salary Structure-wide gap between level 5 and 6</p> <p>The Board's salary structure has a wide gap between level 5 and 6. Management needs to review this gap and take corrective measures</p>	<p>The current salary was approved by the SCAC to help the Board undertake staff recruitment and operationalize its functions.</p> <p>In April 2013, the Board engaged the services of the Management Consultancy Services of the Ministry of State for Public Service to undertake Remuneration and Staff Benefits Survey.</p> <p>From the Survey findings, the Consultants have proposed narrowing of the salary gaps and introduction of seven (7) tier salary bands for each level and a four (4) year review cycle in line with Government guidelines.</p> <p>The Board forwarded to Salaries and</p>	Human Resource & Admin Manager	<p>Not resolved.</p> <p>SRC did not approve the implementation report.</p> <p>Refer letter, Ref.No:SRC/RS/MEM/3/34</p>	<p>To be determined by SRC.</p> <p>Refer letter, Ref.No: SRC/RS/MEM/3/34</p>

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		Remuneration Commission the Survey findings and management recommendations on 8 th April 2013. The Board negotiated the Proposed Salary Structure with the Commission on 15 August 2013. The Board is waiting response of the Salaries and Remuneration Commission			
2.1	<p>Job evaluation Exercise</p> <p>The Management engaged Jena Management Consultant to undertake job evaluation exercise at a contract price of Kshs.707, 600 on 24 June 2011. On 2 August,2011,the consultant was paid Kshs.217,000 as deposit (mobilisation fee).It was paid observed that despite this down payment, the consultant has not fulfilled part of the agreement (contract) to date. The management has not received any report from the consultant and it has not terminated the contract nor taken any legal action to get the report or recover the money already paid to the consultant two years after the contract was signed</p>	<p>The Job Evaluation tender was awarded to Ms JENA Management Consultant at Kshs 707,600.The Consultant undertook staff training, job scoring and analysis with assistance. The Consultant however failed to Submit the final job Evaluation Report as discussed with Management.</p> <p>The Board wrote to the Consultant on 20th February 2013 to demand the submission of the report or refund of Deposit of Kshs.212, 800/=paid to him at inception of the project.</p>	Human Resource & Admin Manager	Not Resolved	31 st December 2014

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)																								
		As per your recommendation, the Board is in the process of getting the report. In fact this process begun early in the year.																											
3.0	<p>Non-Adherence to budgets During the year under review, the following expenditure items were found to have significant variances with the budgeted figures. Although most of these items had actual amounts less than the budgeted ones, we fear that other critical areas of the Board may have suffered because of lack of priorities in budget formulation.</p> <table border="1" data-bbox="220 1357 635 1720"> <thead> <tr> <th>Item</th> <th>Estimates</th> <th>Actual</th> <th>%Variance</th> </tr> </thead> <tbody> <tr> <td>S/Allowance</td> <td>6,500,000</td> <td>5,070,783</td> <td>22-under Exp</td> </tr> <tr> <td>Other B/Exp</td> <td>530,000</td> <td>294,618</td> <td>44-under Exp</td> </tr> <tr> <td>Board Train.Exp</td> <td>550,000</td> <td>668,440</td> <td>22-Over Exp</td> </tr> </tbody> </table> <p>Operating Expenses This group of items showed variances of over 10% as tabulated below.</p> <table border="1" data-bbox="220 1917 635 2040"> <thead> <tr> <th>Item</th> <th>Estimate</th> <th>Actual</th> <th>%Variance</th> </tr> </thead> <tbody> <tr> <td>Office Partiti</td> <td>1,038,224</td> <td>297,192</td> <td>71-Under</td> </tr> </tbody> </table>	Item	Estimates	Actual	%Variance	S/Allowance	6,500,000	5,070,783	22-under Exp	Other B/Exp	530,000	294,618	44-under Exp	Board Train.Exp	550,000	668,440	22-Over Exp	Item	Estimate	Actual	%Variance	Office Partiti	1,038,224	297,192	71-Under	<p>It is correct that during the financial year under audit, there was under-expenditure in most budgets lines. The under expenditure was due to late disbursement of funds by Ministry, thus affecting expenditure. This is further evidence by the fact that all quarter 4 grants were received after the year end</p>	Finance Manager	Resolved	
Item	Estimates	Actual	%Variance																										
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ComM & P/R	15,589 ,953	7,495, 678	52- Under Exp																		
4.0	<p>Fully depreciated assets During the year under review, it was observed that the Board had fully depreciated assets of Kshs.3, 922,913 as per attached FDA .These assets are still productive to the Board and thus should be re-valued to determine their worthiness and properly reflected in the financial statements.</p>	<p>It is factual that the Board has fully depreciated assets of Kshs.3, 922,913.The Board will evaluate them in order to determine the ones that need replacement and revalue the ones that remain.</p>	Finance Manager	Resolved.																	
5.0	<p>Procurement of T-shirts The audit revealed that during the year ending 30 June 2013,the Board procured through requests for quotations some T-shirts totaling Kshs.3,905,000, whose amounts exceed the threshold matrix limits of Kshs.1,000,000,contrary to Public Procurement Act, Section 26(3(b) as follows.</p> <table border="1"> <tr> <th>Suppli er</th> <th>Chequ e no</th> <th>Items</th> <th>Amou nt Kshs.</th> </tr> <tr> <td>Aqua Ltd</td> <td>3036</td> <td>Round neck</td> <td>1,040, 000</td> </tr> </table>	Suppli er	Chequ e no	Items	Amou nt Kshs.	Aqua Ltd	3036	Round neck	1,040, 000	<p>Upon response from the various suppliers we realized that the costs were much higher due to the quantity and quality specified. We considered the possibility of advertising and realized that this would have cost an additional Kshs.700,000 (Seven hundred thousand shillings) at a minimum. In our view we felt this would not be</p>	Procure ment Officer	The issue was resolved. The departmen t has not procured T- shirts since then	Adherence to the Public Procurement and Disposal Act is a continuous exercise that the Board endeavors to adhere to. N/B PPOA has revised the thresholds								
Suppli er	Chequ e no	Items	Amou nt Kshs.																		
Aqua Ltd	3036	Round neck	1,040, 000																		

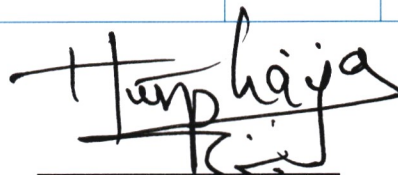
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		T-shirts																			
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Total			3,905,000																		
6.0	<p>Internal Audit</p> <p>In spite of the internal audit department being composed of only two staff, it has covered nearly all the areas of the Board and it has given very detailed reports both to management and to the Board Committees. Functionally the audit reports to the Board but administratively to the management .We observed a</p>	<p>We note with appreciation your observation on the performance of the Internal Audit Office. The Board will continue to provide the necessary support to enhance the performance of this office, The necessary capacity building for the</p>	Internal Audit Manager	Risk assessment and plans have been done and approved by the Board from 2009.These are adhered to	N/A																

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>high degree of independence and assertiveness in its work</p> <p>Given the potential size of the audit universe, the related scope of work and the need for efficient use of limited internal audit resources, it is critical for the internal audit to priorities and plan audit engagements based on annual risk assessment that is viewed from the perspective of the Boards goals and objectives. The assessment should include information on the adequacy and effectiveness of the Board's risk management and control processes and review of regulatory compliance programmes</p> <p>We would also advise the management to look at the internal audit activities plans, resources requirements, and new training needs and give necessary support so that the department can add value to the Board in an effective, efficient and timely manner.</p>	<p>office has already been incorporated in the Boards training program.</p> <p>As you rightly stated the role of the internal Audit in improving the Boards operations cannot be over emphasized, we are grateful for your counsel</p>		<p>by Internal audit department and monitored by Audit Committee quarterly.</p>	



Chief Executive Officer

Date: 26/1/2015



Chairman of the Board

Date: Jan 27 2015