

REPUBLIC OF KENYA



Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

**KENYA INDUSTRIAL RESEARCH AND
DEVELOPMENT INSTITUTE**

**FOR THE YEAR ENDED
30 JUNE, 2019**

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| THE NATIONAL ASSEMBLY | |
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| THE NATIONAL ASSEMBLY | |
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KIRDI
Your Industrial Technology Partner...

KENYA

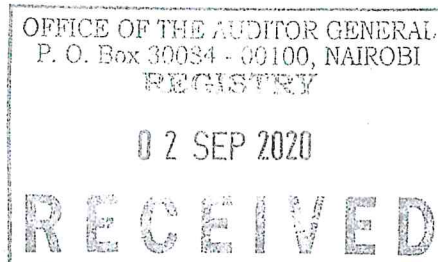


KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30TH, 2019**

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



KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE (KIRDI)
POPO ROAD, NAIROBI SOUTH C, P.O. BOX 30650 - 00100, NAIROBI, KENYA
TELEPHONE: 0202388216/0202393466. Website: www.kirdi.go.ke
Email: dir@kirdi.go.ke

NAMES AND ACRONYMS

| | |
|----------------|--|
| A in A | Appropriation in Aid |
| G.O.K | Government of Kenya |
| MOITC | Ministry of Industry, Trade and Co-operatives |
| R&D | Research and Development |
| R.T.I. | Research, Technology and Innovation |
| UNIDO | United Nations Industrial Development Organization |

TABLE OF CONTENTS

| | |
|--|--------|
| NAMES AND ACRONYMS | i |
| THE BOARD OF DIRECTORS..... | vi |
| MANAGEMENT TEAM 2018/2019 | xiii |
| CHAIRMAN'S STATEMENT | xv |
| REPORT OF THE CHIEF EXECUTIVE OFFICER | xvii |
| CORPORATE GOVERNANCE STATEMENT | xix |
| BOARD COMMITTEES AND THEIR COMPOSITION | xxi |
| MANAGEMENT DISCUSSION AND ANALYSIS | xxvi |
| CORPORATE SOCIAL RESPONSIBILITY STATEMENT | xxvii |
| REPORT OF THE DIRECTORS..... | xxviii |
| STATEMENT OF DIRECTORS' RESPONSIBILITIES | xxix |
| REPORT OF THE INDEPENDENT AUDITORS ON KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE | xxx |
| STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 TH JUNE 2019..... | 1 |
| STATEMENT OF FINANCIAL POSITION AS AT 30 TH JUNE 2019..... | 2 |
| STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 TH JUNE 2019 | 3 |
| STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 TH JUNE 2019 | 4 |
| STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS - RECURRENT BUDGET 2018/2019 | 5 |
| STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS - DEVELOPMENT BUDGET 2018/2019 | 6 |
| NOTES TO THE FINANCIAL STATEMENTS | 8 |
| APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS..... | 21 |
| APPENDIX II: INTER -ENTITY TRANSFERS | 23 |

KEY INSTITUTE INFORMATION AND MANAGEMENT

(a) Background information

The Kenya Industrial Research and Development Institute (KIRDI) is a statutory research organization established under the Science and Technology Act Cap 250, 1979 (now repealed and replaced by the Science, Technology and Innovation Act 2013). KIRDI is the country's principal national institution responsible for industrial research and development and domiciled under the Ministry of Industry, Trade and Co-operatives. It is mandated to carry out Research and Development in industrial and allied technologies including, Civil Engineering, Mechanical Engineering, Textile Technology, Electrical Engineering, Mining, Power Resources, Chemical Engineering, Industrial Chemistry, Food Technology, Ceramics, Information and Communications Technologies (ICT) and Ceramics. The Institute's mission is to undertake Industrial Research, Technology and Innovation and disseminate findings that will have a positive impact on national development. As well, its vision is to be a Centre of Excellence in Industrial Research, Technology & Innovation.

(b) Principal Activities

The principal activity of the Institute is to undertake Industrial Research Technology and Innovation and disseminate findings that will have a positive impact on the national development.

(c) Key Management

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

- The Office of Director and Chief Executive Officer
- Research Technology and Innovation Department
- Finance and Administration Department
- KIRDI Enterprise Services Department
- Corporate Services Department
- Legal services & Corporate Secretary

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2019 and who had direct fiduciary responsibility were:

| S.N | Designation | Name |
|-----|---|-------------------------------|
| 1 | Director / Chief Executive Officer | Prof. David K. Rotich Tuigong |
| 2 | Ag. Deputy Director, Research Technology and Innovation | Dr. Martha Induli |
| 3 | Ag. Head KIRDI Enterprise Services & Chief Research Scientist | Mr. Samwel M. Wambugu |
| 4 | Deputy Director - Corporate Services | Mr. Nicodemus Mutinda |
| 5 | Ag. Assistant Director- Finance | Mr. Stanley Abonyo |
| 6 | Assistant Director - Human Resource and Administration | Mr. Jairus Ombui |
| 7 | Ag. Principal Internal Auditor | Mr. Thomas Kazungu |

(e) Fiduciary Oversight Arrangements

The Board works through various sub-committees which include; The Research Technology and Innovation Committee, Finance and Special Projects Committee, Risk and Audit Committee, Human Resources and Administration Committee and Management Committee.

Research Technology and innovation Committee

This committee consisted of five members. The committee was chaired by Eng. Andrew G. Muigai. It had a responsibility to oversee the Institute's research project plans, Technology and Research. It also reviews projects proposals. Other members of the committee include Prof. Christopher G. Nyagah, Dr. David Njubi, Ms. Nancy Muya, Dr. Kaberia E. Limukii and Prof. David K. Rotich Tuigong'.

Finance and Special Projects Committee

This committee consisted of five members. The committee was chaired by Ms. Ophelia Nyawira. This Committee had oversight on all financial issues including budgets, financial reporting process and controls and procurement. It also reviews proposals for capital developments. In addition the committee appraises capital budgets for recommendation to the Board. Other members of the committee include Eng. Andrew Muigai, Ms. Nancy Muya, Dr. Kaberia E. Limukii, Maj. Rtd Hussein Abshiro Herin and Prof. David K. Rotich Tuigong'.

Risk and Audit Committee

This committee consisted of five members. The committee was chaired by Prof. Christopher G. Nyagah. It had an oversight responsibility of reviewing, assessing adequacy and monitoring of internal controls, risk management and corporate governance processes; examining internal and external audit reports and recommendations therein. Other members of the committee include Mr. Martin S. O. Gumo, Dr. David Njubi, Dr. Stephen K. Mairori, and Ms. Rahab W. Lanoi.

Human Resources and Administration Committee

This committee consisted of five members. The committee was chaired by Dr. Stephen K. Mairori. It was responsible for human resource matters including recruitment, succession management, monitoring and appraising the performance of senior management, including the Managing Director, review of the HR policies, review of general administrative and procurement policies and oversight of corporate communication policies. Other members of the Committee include Mr. Martin S. O. Gumo, Maj. Rtd Hussein Abshiro Herin, Ms. Ophelia Nyawira, Ms. Rahab W. Lanoi and Prof. David K. Rotich Tuigong’.

(f) Institute’s Headquarters

P.O. Box 30650 00100
KIRDI South C Campus
Popo Road, off Mombasa Rd
NAIROBI, KENYA

(g) Institute’s Contacts

Telephone: (254) (020) 6000011
E-mail: dir@kirdi.go.ke
Website: www.go.ke

(h) Institute ‘s Bankers




1. National Bank of Kenya
KEBS SOUTH C, Popo Road
NAIROBI, KENYA

2. Barclays Bank of Kenya
N I C Branch
NAIROBI, KENYA

(i) Independent Auditors

Auditor General
Office of The Auditor General
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
NAIROBI, KENYA

THE BOARD OF DIRECTORS

| DIRECTOR | PROFILE |
|---|--|
|  <p>Hon. LelelitLati Chairperson Board of Directors</p> | <p><i>Appointed on 6th June, 2018 for 3 years term</i></p> <p>HON. LELELIT LATI (40) holds an MBA from Brandeis University Massachusetts, USA; BSc. in Economics and Mathematics from St. Lawrence University, New York, USA. Previously a member of Parliament at the Kenya National Assembly (2013-2017) for Samburu West; Portfolio Manager, Sovereign Wealth at State Street Global Advisors, Boston MA USA (2006-2010).</p> |
|  <p>Dr. David Njubi Alternate Member of the Board of Directors.</p> | <p><i>Alternate to the Executive Secretary, National Commission for Science, Technology and Innovation (NACOSTI)</i></p> <p>DR. NJUBI (56) holds a Ph.D. (Animal Science), MSc. (Animal Breeding Genetics), MSc in Information Systems and BSc. in Agriculture from the University of Nairobi. He has several years of experience in Research and Development activities supporting sustainable smallholder programmes. He has previously worked for various organizations including; ILRI, ILCA, KARI and has authored and co-authored several research papers relevant to national development.</p> <p>He is currently Chief Scientist & Head of Agriculture & Natural Resource Department at the National Commission for Science Technology and Innovation (NACOSTI). He is involved in Policy advice, promotion and Coordination of Science, Technology & Innovation.</p> |
|  <p>Prof. Christopher G. Nyagah Member of the Board of Directors.</p> | <p><i>Appointed on 17th April 2015 and served for three years. His term ended on 16th April, 2018 and was reappointed on 21st September 2018</i></p> <p>PROF. NYAGAH (70) holds a PhD in Chemistry, MSc. and B. Ed (Science) Hons from the University of Nairobi. He has more than 40 years of experience in Research, University Teaching and Management and has published many articles in referred journals. Prof. Nyagah is currently a Full Professor of Chemistry at Jomo Kenyatta University of Agriculture and Technology.</p> |



Ms. Nyawira Ophelia Njeru
Member of the Board of Directors

Appointed on 9th November, 2015 for a 3 years term which ended on 8th November, 2018 and was reappointed on 3rd May 2019

MS. NJERU (45) is an Accredited Certified Executive Leadership Coach (CELC) and holds an MSc. Marketing from the University of Wales and is pursuing a Masters in Public Policy and Administration at Kenyatta University. She holds a B.Com Degree from Catholic University of Eastern Africa and a Post Graduate Diploma in Marketing from Chartered Institute of Marketing UK. Ms. Njeru is a Member of Institute of Directors (Kenya), International Coach Federation and Chartered Institute of Marketing UK. She has over Fifteen (15) years' experience in Management having served in various leadership and managerial positions in both public and private sectors. She has worked for Sealed Air Corporation as Business Director, Eastern and Southern Africa and currently works with Becton Dickinson, Leading Global Health & Public Private Partnerships in Eastern Europe, Middle East and Africa.






Eng. Andrew Gichamba Muigai
Member of the Board of Directors


Appointed on 31st May 2016 for a 3 years term which ended on 30th May 2019 and was reappointed on 30th May 2019


ENG. MUIGAI (55) holds a BSc. Degree in Civil Engineering from the University of Nairobi, Post Graduate Diploma in Procurement Management from Turin Italy and Post Graduate Certificate in Project Planning Appraisal & Financing from University of Bradford.




He is Registered with the Engineers Registration Board of Kenya as well as a Corporate Member of Institute of Engineers of Kenya; he is also a Member of the Institute of Directors (Kenya). He is an entrepreneur, engineer and consultant with over thirty (30) years of experience in Civil Engineering & Project Management Consultancy; and over twenty five (25) years of experience in Leadership and Management gained in both the public and private sectors.

He is currently the Executive Director Kunene Partners Limited - an advisory and fund raising firm - in special situation investments in sectors that include but not limited to real estate, energy, agriculture and infrastructure

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|  <p>Ms. Nancy Muya Alternate Member of the Board of Directors</p> | <p><i>Alternate to the Principal Secretary, Ministry of Industry, Trade and Co-operatives, State Department of Industrialization</i></p> <p>MS. MUYA (57) holds BSc. (Maths/Chem) degree from Kenyatta University and is pursuing MSc (Entrepreneurship) degree at Jomo Kenyatta University of Agriculture and Technology. She has over 25 years of experience in civil service, offering her expertise in industrial development while in the Ministry.</p> <p>She has undergone several short term training programmes during her work experience in industrial development, Policy formulation, processing technologies, management and leadership, locally and internationally. She has served in various boards.</p> |
|  <p>Mr. James K. Wang'ombe Alternate Member of the Board of Directors</p> | <p><i>Alternate to the Inspector General, Inspectorate of State Corporations, Office of the Deputy President.</i></p> <p>MR. WANG'OMBE (56) is an Economist by Profession. He Holds an MBA and is a Member of Information Systems Audit and Control Association (ISACA).</p> <p>He has over 28 years of Experience in the Public Service having served in the Planning and Oversight Sectors.</p> <p>He is currently an Inspector with the Inspectorate of State Corporations.</p> |
|  <p>Mr. Martin S. Gumo Alternate Member of the Board of Directors</p> | <p><i>Alternate to the Principal Secretary, Ministry of Finance and National Treasury</i></p> <p>MR. GUMO (65) holds a Bachelor of Commerce (Accounting option) Degree and Masters of Science Degree in Finance from the University of Nairobi. He is a qualified Accountant with CPA (K) and a member of ICPAK.</p> <p>He is a career civil servant with vast experience in management and Public Finance having worked in the Public Service for over 35 years.</p> <p>He is currently the Deputy Director, Macro and Fiscal Affairs in the National Treasury. Previously, he worked with the Ministry of Finance (now the National Treasury) and the Kenya Revenue Authority.</p> |

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|  <p>Mr. Ahmed Muhumed Abdi Member of the Board of Directors</p> | <p><i>Appointed on 9th November, 2015 for 3 years term which ended on 8th November 2018</i></p> <p>MR. ABDI (45) holds LLB. Hons. IIUM from Malaysia and B.Ed (Eng. & Literature) from Egerton University. He has over fourteen (15) years of experience in Development Work, Programme Management, Governance, Disaster Preparedness and Response working in various capacities for NGOs in liaison with Community Groups, International Humanitarian Organizations, Government Departments and UN Agencies as well as State Corporations undertaking different assignments.</p> |
|  <p>Mr. Christopher K. Nkang'I Member of the Board of Directors</p> | <p><i>Appointed on 9th November, 2015 for a 3 years term which ended on 8th November 2018.</i></p> <p>MR. NKANG'I (40) holds a B.Com Degree Marketing option from the University of Nairobi and Higher National Diploma in Marketing From Kenya Institute of Management. He is a Business Manager of Dial-Up Associates Company Limited and Vice-Chairperson of Igembe Community Development Committee.</p> |
|  <p>Prof. Tuikong D. K. Serem, OGW Member of the Board of Directors</p> | <p><i>Appointed on 8th June, 2009 and served on a three (3) years renewable terms which ended on 8th November 2018.</i></p> <p>PROF. SEREM (68) holds a Doctor of Education (Ed. D) degree from the University of Wyoming (USA), MA degree in Education Administration and a BA degree in Education. He has had a long career in University Education particularly in the area of Administration. Prof. Serem has served as a Principal and Deputy Vice Chancellor (Maseno University), Principal (Narok University College) and Ag. Vice Chancellor (Maasai Mara University).</p> <p>He is a Fellow member of the Kenya Institute of Management (KIM) and also a Council Member. Prof. Serem has been decorated with OGW medal by the Kenya Government. He is currently a Professor of Education at Moi University and Chairman, Mount Kenya University Council.</p> |

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|  <p>Eng. Kennedy Juma Wafukho Member of the Board of Directors</p> | <p><i>Appointed on 31st May 2016 for a 3 years term which ended on 30th May 2019.</i></p> <p>ENG. WAFUKHO (49) holds a BSc. Degree in Electrical and Electronics Engineering from the University of Nairobi. He has twenty (20) years' experience in Manufacturing, Quality Assurance, Project Management, Facilities Management, EHS (Environment Health and Safety) Management, and Energy & outsourcing optimization.</p> <p>He worked for KEBS in 1998 in the Import Inspection Section before joining British American Tobacco Kenya as a Graduate Trainee. He is currently the Head of Manufacturing in British American Tobacco Kenya. Prior to this he served in various roles starting as Production Services Manager, Primary Manufacturing Manager, Projects Manager, Quality Assurance Manager, GLT (Green Leaf Threshing) Plant Manager and Engineering & Facilities Manager in the same organization.</p> <p>He has extensive experience in managing Capital Expenditure and Project Management using PRINCE 2 methodology.</p> |
|  <p>Maj. Rtd Hussein Abshiro Herin Member of the Board of Directors</p> | <p><i>Appointed on 3rd May 2019</i></p> <p>MAJ. RTD. ABSHIRO HERIN (47) is a retired military/Airforce Officer with an illustrious career spanning over two and a half decades. Currently pursuing MSc. Procurement and Contract Management at JKUAT. Holds Bsc. Business Management (Human Resource option) and Military Advance Intelligence Affiliation Courses both local and overseas. He has thorough knowledge of National Security and Security implication.</p> |

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|  <p>Dr. Kaberia Evans Limukii Member of the Board of Directors.</p> | <p><i>Appointed on 3rd May 2019</i></p> <p>Dr. Limukii (49) holds PhD (Administration & Policy) from Moi university, post- Doctoral Higher National diploma in Human resource management from Shaberere Technical Training Institute, M.E.D (Planning and Economics), Kenyatta University, B.E.D (Arts), Kenyatta University and he is I.T. compliant. He is widely published in referred journals, an expert in management and policy. He has served in several senior capacities in the university, County Government and several management boards. He is a member of the Education management society of Kenya, Life Member red cross Kenya and a member of the Institute Resource Management (IHRM). He has attended Seminars and workshops touching on Education, Democracy, Procurement and Administration.</p> |
|  <p>Ms. Rahab W. Lanoi Member of the Board of Directors</p> | <p><i>Appointed on 3rd May 2019</i></p> <p>MS. LANOI (45) is currently pursuing PhD (Strategic Management at Kenyatta University, She has Masters degree in Business administration (Strategic Management) from Kenyatta University, BSC Computer information Systems, Advance Diploma in information Technology. She has worked as a Strategic consultant/Digital Marketing manager at Herms solutions, a lecturer at CUEA department of computer science and school of business, she has also worked at Air Kenya express at various position i.e Operation shift manager ,Marketing account manager and system administrator strategic planning manager. She has attended various training and seminars related to her career.</p> |
|  <p>Dr. Stephen Kiptoem Mairori Member of the Board of Directors</p> | <p><i>Appointed Director on 21st September, 2018 for a 3 years term</i></p> <p>DR. MAIORI (51) Holds a Bachelor's Degrees, Masters of Divinity with a focus on Leadership, Doctor of Ministry. He was a member of the County Government of Trans Nzoia Public Service Board selection panel in 2013. Served as a Board Member at NACADA and Kenya Institute of Public Policy (KIPPR). Has served as a Regional Coordinator Global Leadership Summit, Executive Director of ICM Kenya and Equip National Director.</p> |



Prof. David K. RotichTuigong
Director / Secretary to the
Board

Appointed Director / CEO on 4th June 2018

PROF. TUIGONG (57) holds a Doctorate of Engineering (Textile Engineering) degree from Donghua University (2002-2006), Shanghai, China; Master of Engineering degree in Textile Technology from Ghent University (1996-1998), Belgium. A Bachelor of Technology (Textile Engineering) from Bharathiar University, India. Was Previously Deputy Vice Chancellor - Finance at Moi University (2014-2016) and Managing Director, Rivatex East Africa Ltd (2007-2014).He has several publications to his name and is a member of Kenya Institute of Management; International Society of Engineers Education; Registered Graduate Engineer; Member of the Textiles Institute - Manchester, UK.

MANAGEMENT TEAM 2018/2019

| MEMBER | PROFILE |
|---|---|
|  <p>Prof. David K. Rotich Tuigong Director / Secretary to the Board</p> | <p>PROF. TUIGONG (57) holds a Doctorate of Engineering (Textile Engineering) degree from Donghua University (2002-2006), Shanghai, China; Master of Engineering degree in Textile Technology from Ghent University (1996-1998), Belgium. A Bachelor of Technology (Textile Engineering) from Bharathiar University, India. Was Previously Deputy Vice Chancellor - Finance at Moi University (2014-2016) and Managing Director, Rivatex East Africa Ltd (2007-2014).</p> <p>He has several publications to his name and is a member of Kenya Institute of Management; Member: International Society of Engineers Education; Registered Graduate Engineer; Member of The Textiles Institute - Manchester, UK.</p> |
|  <p>Mr. Samwel Wambugu Ag. Deputy Director, Technology Transfer & Extension Services</p> | <p>MR. WAMBUGU (59) holds a Master of Science degree in Food Science from the University of Pretoria (Republic of South Africa) and a Bachelor of Science degree in Food Science and Technology from the University of Nairobi</p> <p>He has several publications to his name.</p> <p><i>(Appointed as Ag. Deputy Director, Technology Transfer & Extension Services 15th April, 2019)</i></p> |
|  <p>Ms. Florence M. K. Mwikya Corporation Secretary & Head of Legal Services</p> | <p>MS. MWIKYA (41) holds a Master of Laws Degree (LLM) from the University of Nairobi, a Bachelor of Laws Degree (LLB) from the same University and a Post Graduate Diploma in Law from the Kenya School of Law. She is a Commissioner for Oaths and Notary Public.</p> <p>Florence is a Certified Public Secretary of Kenya (CPSK) and a Member of the Institute of Certified Public Secretaries of Kenya (ICPSK) and the Law Society of Kenya (LSK) in good professional standing. Florence has a wealth of experience both Legal and Corporation Secretarial matters both from Private and Public Sector.</p> |



Mr. Nicodemus Mutinda
Deputy Director, Corporate
Services

MR. MUTINDA (41) holds a Master's of Business Administration (MBA) in Strategic Management from Kenyatta University, Bachelor of Technology in Textile Engineering from Moi University and is a certified Quality Management Systems auditor.

He has more than 15 years of experience in Business Processes Re-engineering, Product Development, Quality Management Systems, Performance Management and Project Management.

He is responsible for Planning, Strategy, Monitoring and Evaluation, Quality Assurance, Marketing and Corporate Communication functions within the Institute.



Mr. Jairus Ombui
Assistant Director, Human
Resource & Administration

MR. OMBUI (58) holds an MBA from the Management University of Africa and a Bachelor of Commerce Degree (Business Administration) from University of Poona, India. He is a member of the Institute of Human Resource Management, Kenya (IHRM), Kenya Institute of Management (KIM) and has over 20 years' experience in the Public Sector.



Mr. Stanley Abonyo
Ag. Assistant Director-Finance

MR. ABONYO (42) holds a Masters of accounting and Business Statistics degree from Rajasthan v. University India and Bachelor of Commerce (Accounting Option) degree from the same University. He is a qualified accountant with CPA (K) and a member of Institute of Certified Public Accountants (ICPAK).

He has over fifteen (15) years' experience in finance and Accounting gained in Public and private sector. He has taught finance and accounting units in several public universities in Kenya as a part time Lecturer.

(Appointed as Ag. AD - Finance on 18th June, 2018)



Mr. Thomas S. Kazungu
Ag. Principal Internal Auditor

MR. KAZUNGU (37) holds a Masters of Business Administration (MBA) in Finance from Jomo Kenyatta University of Agriculture and Bachelor of Business Management degree (Accounting Option) from Moi university. He is a qualified accountant with CPA (K) and a member of Institute of Certified Public Accountants (ICPAK).

He has over ten (10) years' experience in finance and Accounting gained in Public sector.

(Appointed as Ag. AD - Ag. Principal Internal Auditor, 2019)



Dr. Martha K. Induli
Ag. Deputy Director Research Technology and Innovation

DR. INDULI (46) holds a Doctor of Philosophy (Natural Products Chemistry) from Makerere University, a Master's of Science (Chemistry) from University of Nairobi and a Bachelor of Science (Chemistry) degree from Moi University. She is a member of the Natural Products Research Network for Eastern and Central Africa (Kenya Chapter).

She is an expert in Plant and Microbial Natural products research and has over 20 years' experience in the field with several publications in various refereed journals.

(Appointed as Ag. Deputy Director - Research, Technology and Innovation on 1st February, 2019)

CHAIRMAN'S STATEMENT



The Kenya longterm National development agenda is set out in the Kenya Vision 2030 programme. The aim of vision 2030 is to make Kenya a globally competitive and prosperous country by transforming it into an industrialized middle income nation, providing high quality of life for all the citizens by the year 2030.

In pursuit of this goals, KIRDI plays a pivotal role and has remained focused on delivering on the core mandate to undertake industrial reaserch and transfer of innovative technologies for socio-economic development.

The Kenyan manufacturing sector conitnues to face challenges that hamper its growth. The main challenges in this sector include low productivity and low global competitiveness. The main cause of low productivity and low global competitiveness is the nature of manufacturing technology utilized. Most of the Kenyan Manufacturing industries are still using outdated technology compared to similar industries in other countries espesially in Asia, Europe and United State of America. These makes products imported into the country cheaper and of higher quality than locally manufactured products. The Kenyan Manufacturing sector is also dominated by Small and Medium Enteprires (SMEs) which face a myriad of challenges as a result of lack of technological capabilities.

In order to assist the manufacturing sector, KIRDI has continued to develop and transfer to industry, technologies geared towards addressing the challenges of low productivity, poor product quality and technological backwardness.

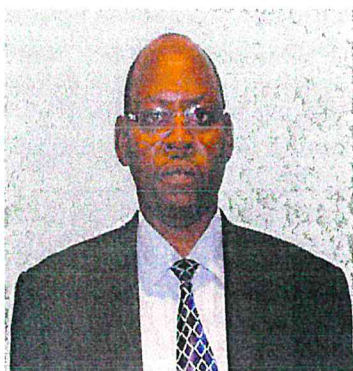
During 2018/2019 financial year the Institute completed the installation of leather processing and common manufacturing facilities in KIRDI, Kisumu. These facilities are expected to develop and transfer leather manufacturing technologies to MSMEs across the entire Country. The Institute also implemented Research, Technology and Innovation programmes aligned to the Government's priority sectors of Leather, Textile and Agro-processing. The Institute also supported Micro, Small and Medium Enterprises (MSMEs) development through technology transfer and provision of product development, incubation, common manufacturing facilities and laboratory services and thus contributing to wealth and employment creation.

The institute takes matters of Constitutionalism, Governance and Integrity issues at centre stage and thus during the 2018/2019 financial year the institute continued to review and align its policies and programmes with the constitution, ensured adherence to Mwongozo Code of Governance and promotion of National Values and Principles of Governance.

Signature: 
HON. J. LELELIT LATI

Date: 31/8/2020

REPORT OF THE CHIEF EXECUTIVE OFFICER



I am delighted to present the KIRDI financial report for the 2018/2019 financial year. The institute has continued to undertake its mandate as stipulated in the Science and Technology Act (2013) as well as play its role in the country's industrialization agenda as envisaged in the Vision 2030. KIRDI RTI Techno-centre development is a Vision 2030 Flagship project geared towards transformation of KIRDI into a world class research organization and therefore the institute has intensified its developmental and operational programmes to achieve that global competitiveness status. The institution continued to implement the Government's industrialization priority sectors of Leather, Textile and Agro-processing. During the 2018/19 financial year the Institute implemented the following programmes: -

(a) Promote MSMEs development

During the 2018/2019 financial year The Institute supported 584 MSMEs as follows:-

- i. Ten (10) MSMEs through Technology Incubation services
- ii. Two hundred and fifty three (253) MSMEs through common manufacturing services
- iii. One hundred and eighty eight (188) MSMEs through Training, capacity building and consultancy services
- iv. One hundred and thirty three (133) MSMEs through laboratory analytical and testing services

(b) Enhance global competitiveness

During the 2018/2019 financial year the Institute supported the upgrade of twenty (20) MSMEs products to enhance their global competitiveness through product development, standardization, and packaging in the following priority sectors:-

- i. Leather - one (1) product
- ii. Agro-processing - Nineteen (19) products

(c) Infrastructure Development

Under the transformation of KIRDI into a world class Research Institution programme, the Institute completed the construction of the Leather Annex building in KIRDI Kisumu and completed the Installation of Leather processing and common manufacturing facilities. The Institute also commenced the procurement of food processing and common manufacturing facilities in KIRDI, Kisumu. The completion of the Research, Technology and Innovation laboratories and related infrastructure at Nairobi South B which was affected

lack of funds and stands at 64 % completion level at the close of the financial year.

(e) Externally funded projects

The Institute implemented/collaborated in the implementation of the following externally funded projects: -

- i. Business Incubation for African Women Entrepreneurs (BIAWE) funded by COMESA.
- ii. Adaptation and Promotion of Refractance Window Drying Technology for production of High Quality Bio-products funded by BioInnovate Africa.
- iii. Upgrading Artisanal Nyirinyiri Processing Technology in Northern Kenya for enhanced quality, safety and market access funded by National Research Fund, Kenya.
- iv. Production of polyphenol and Gama-Amino Butyric Acid enhanced tea varieties for mitigation against cancer and high blood pressure funded by National Research Fund, Kenya.
- v. Approaches to value-addition and commercialization of climate smart crops for enhanced food security and nutrition in Africa and beyond funded by National Research Fund, Kenya.
- vi. Developing microbial biotechnology industry from Kenya's soda lakes in line with the Nagoya Protocol funded by Global Environment Facility.
- vii. Africa Centre of Excellence in Phytochemicals, Textiles and Renewable Energy Funded by World Bank
- viii. Green and Circular Innovation for Kenyan Companies (GECKO) funded by the Strategic Sector Cooperation
- ix. Greening Kenya: Stimulating Competitiveness and Investment in the face of Resource Scarcity and Climate Change, funded by Green Climate fund
- x. Development of Milk-Fish and Kimarawali solar drying-cooling technology, value addition and Quality Assurance, funded by BMEL/BLE

(f) Challenges and Way-forward

A review of the institutes' financial position shows a sizable amount of debt in liabilities as a result of reduced budgetary allocation for the RTI laboratories construction works in South B and also its recurrent budget compared to the previous year.

In view of the aforesaid, our central focus is to put in place strategies to increase our internally generated funds, seek development partners and additional government funding to support our programs. The institute also is working towards operationalization of the western Region Centre in Kisumu by establishing a functional capacity both in personnel and machinery.

Signature: 
PROF. DAVID K. ROTICH TUIGONG

Date: 31/08/2020

CORPORATE GOVERNANCE STATEMENT

The Board and Management of KIRDI are committed to maintaining the highest standards of corporate governance. This statement describes KIRDI's governance principles and practices. The Institute's corporate values and ethics are entrenched in the strategic and Institutional objectives and are focused on transforming and accelerating growth in value for the benefit of all Institute's stakeholders.

The Board Role

The Board of KIRDI exercises its role collectively. The Board determines the Institute's Mission, Vision, Purpose and Core values, sets and oversees the overall strategy and approves significant policies of the institute, ensures that the strategy is aligned with the purpose of the institute and the legitimate interests and expectations of its shareholders and other stakeholders. The Board also ensures that the strategy of the Institute is aligned to the long term goals of the Institute on sustainability so as not to compromise the ability of future generations to meet their own needs. The Board also approves the organizational structure, approves the annual budget of the Institute, monitors the Institute's performance and ensures sustainability, enhances the corporate image of the Institute, ensures availability of adequate resources for the achievement of the Institute's objectives, hires the C.E.O on such terms and conditions of service as may be approved by the relevant government organs, approves the appointment of senior management staff and ensures effective communication with stakeholders.

Composition of the BOD

The Board currently consists of one (1) executive and eleven (11) non-executive Directors. The composition of the Board and brief biographies of the Directors, which highlights the diverse experience and expertise which they bring to the Board as set out on pages viii to xii.

Board Meetings

A schedule of Board and Committee meetings is circulated to the Board in advance of the financial year.

During the year ended 30th June 2019, the Board held meetings as follows; Four(4) Full Board, Eight (8) Special Board meetings necessitated by contractors meetings, staff recruitments. Also the Board had Four(4) RTI committee meetings, Four(4) Finance and Special Projects committee meetings, Three(3) Risk and Audit committee meetings and Four (4) HRA committee meetings. On top of that the Board held Three(3) special HRA Committee meetings, Two (2) Special finance and special projects committee meetings, One (1) visit to KWRC, One (1) Training at Kenya School of Government, One (1) PC Negotiation Meeting, Three (3) CEO And Chairman introduction and Appointment meetings and One (1) BOD retreat.

Individual attendance at these meetings is set out in the table below.

Kenya Industrial Research and Development Institute (KIRDI)
Annual reports and Financial Statements
For the year ended June 30th 2019

2018/2019 BOARD AND BOARD COMMITTEES MEMBERSHIP AND ATTENDANCE

| Director | FB | SFB | F&SP | SF&SP | RTI | RAC | HRA | SHRA | PC | CS-F |
|-------------------------|----|-----|------|-------|-----|-----|-----|------|----|------|
| Hon. J. Lelelit Lati | 4 | 1 | 1 | | 2 | | | | 3 | |
| Prof. C. G. Nyagah | 2 | | | | 2 | 1 | | | | |
| Maj. Rtd. Hussein Herin | | | | | | | 1 | 1 | | |
| Ms. Nancy Muya | 1 | 1 | 2 | 1 | 3 | | | | | 1 |
| Mr. M. Gumo | 4 | 1 | | | | 3 | 1 | 4 | | 1 |
| Eng. A. G. Muigai | 4 | 1 | 3 | 1 | 4 | | | | 3 | |
| Dr. D. Njubi | 3 | 1 | | | 4 | 1 | 2 | 3 | | |
| Dr. Kaberia E. Limukii | | | | | | | | | | |
| Ms. N. Njeru | 2 | 1 | | | | 2 | 2 | 4 | | |
| Dr. Stephen K. Mairori | 2 | | | | 2 | 1 | 1 | 1 | | |
| Ms. Rahab W. Lanoi | | | | | | | 1 | 1 | | |
| Mr. James Wang,ombe | 3 | 1 | | | | | | | | |
| Christopher Kinoti | 2 | 1 | | | | 2 | 2 | 3 | | 1 |
| Eng. Kennedy Wafukho | 3 | 1 | | | | 2 | 1 | 3 | | 1 |
| Mr. Ahmed Abdi | 2 | 1 | 2 | 1 | | | 2 | 3 | | |
| Prof. D. K. Serem | 2 | 1 | 2 | 1 | 2 | | | | | 1 |
| Prof. D. R. Tuigong' | 3 | 1 | 3 | 1 | 3 | | 2 | 3 | | |

KEY

| | | |
|-------------------|---|--|
| <i>FB</i> | - | <i>Full Board</i> |
| <i>SFB</i> | - | <i>Special Full Board</i> |
| <i>F & SP</i> | - | <i>Finance and Special Projects</i> |
| <i>SF&SP</i> | - | <i>Special Finance and special Projects</i> |
| <i>RTI</i> | - | <i>Research Technology and Innovation</i> |
| <i>RAC</i> | - | <i>Risk and Audit</i> |
| <i>HRA</i> | - | <i>Human Resource and Administration</i> |
| <i>SHRA</i> | - | <i>Special Human Resource and Administration</i> |
| <i>PC</i> | - | <i>Performance Contract</i> |
| <i>CS-FT</i> | - | <i>Cabinet Secretary Familiarization Tour</i> |

BOARD COMMITTEES AND THEIR COMPOSITION

The Board committees, composition and mandate is as below;

1. Research Technology and Innovation Committee

This being the Core Mandate of the Institute, the committee deliberates on all matters pertaining to Research, Technology and Innovation policies, guidelines and management.

The members of the committee were:

| | | |
|--------------------------------|---|-------------|
| Eng. Andrew G. Muigai | - | Chairperson |
| Prof. Christopher G. Nyagah | | |
| Dr. Kaberia E. Limukii | | |
| Ms. Nancy Muya | | |
| Dr. David Njubi | | |
| Prof. D. K. Serem | | |
| Dr. Stephen K. Mairori | | |
| Prof. David K. Rotich Tuigong' | | |

The committee had the responsibility to Monitor and evaluate Research, Technology, Innovation and Development in the Institute, Consider, define and recommend to the Board the scope of Research, Technology, Innovation and Development areas relevant to the Institute, Develop policy guidelines to manage Research, Technology, Innovation and Development portfolio of the Institute and vet, monitor and inspect the extent of Research, Technology, Innovation and Development comparing with the world best practices.

2. Finance and Special Projects Committee

The Finance and Special Projects (F&SP) Committee is the prime mechanism through which the Board ensures that the institution's decisions, policies and practices in relation to finance, procurement, infrastructural development and all special projects are in full compliance with relevant policies and statutory requirements.

The members of the committee were:

| | |
|---------------------------------|-------------|
| Ms. Nyawira Njeru - | Chairperson |
| Ms. Nancy Muya | |
| Maj. Rtd. Hussein Abshiro Herin | |
| Dr. Kaberia E. Limukii | |
| Eng. Andrew Muigai | |
| Mr. Ahmed Abdi | |
| Prof. D. K. Serem | |
| Prof. David K. Rotich Tuigong' | |

This Committee had the role of considering, advising and making appropriate recommendations to the Board of Directors on all aspects of financial strategy, including fundraising initiatives, Reviewing financial performance against budget and plans, Considering proposals for major capital expenditure projects and recommending to the Board, Reviewing progress on each major capital expenditure project during implementation, requesting and receiving reports from other committees on any matter having a financial implication, Ensuring that adequate A in A was raised, providing oversight of the arrangements for safeguarding institutional assets and making recommendations to the Board as appropriate.

3. Risk and Audit Committee

The Risk & Audit (RAC) Committee of the Board dealt with risk management and audit matters. The internal audit unit within the institute was responsible for the institution's internal audit and provided secretariat to the Risk & Audit Committee of the Board.

The members of the Committee were:

| | | |
|-----------------------------|---|-------------|
| Prof. Christopher G. Nyagah | - | Chairperson |
| Mr. Martin Gumo | | |
| Dr. David Njubi | | |
| Dr. Stephen K. Mairori | | |
| Ms. Rahab W. Lanoi | | |
| Ms. Nyawira Njeru | | |
| Eng. Kennedy Wafukho | | |

The Committee reviewed the activities, resources and the operational effectiveness of internal audit office; including appointment, replacement, and dismissal of the Internal Auditor, and where appropriate made recommendations to the Board. It considered the respective scope of work and audit plans of the internal audit office, reviewed major findings on internal audit and investigations reports; and ensured that appropriate action was taken on issues arising from such reports, reviewed and monitored management's responsiveness to the findings and recommendations of the Internal Auditor, reviewed the Comptroller and Auditor General /external auditor's management letters and management's response, discussed with external auditors any reservations and problems arising in the course of their audit, and any audit management letters and management responses prior to the issuance of the audit certificate, reported Committee actions to the Board with such recommendations as the committee may deem appropriate; and Undertook such other duties or functions as may be assigned by the Board of Directors which are relevant to audit and investigations.

4. Human Resources and Administration Committee

The committee was expected to satisfy itself that the institute's human resources management and administration activities were adequate and effective.

The Members of the Committee were:

| | | |
|--------------------------------|---|-------------|
| Dr. Stephen K. Mairori | - | Chairperson |
| Mr. Martin Gumo | | |
| Maj. Hussein Abshiro Herin | | |
| Ms. Nyawira Ophelia Njeru | | |
| Ms. Rahab W. Lanoi | | |
| Eng. Kennedy Wafukho | | |
| Mr. Ahmed Abdi | | |
| Christopher Kinoti | | |
| Prof. David K. Rotich Tuigong' | | |

The Role of the Committee was to consider, review, monitor and make recommendations to the Board of Directors on the institute's human resources strategy and policies that pertain to staffing, compensation, benefits, and related issues of strategic importance that directly affected the institute's ability to recruit, develop and retain highly-qualified staff needed for it to achieve its mandate, to deliberate on promotions, terminations, dismissals, and staff development within the specified job grades, to request and receive reports from other committees on any matter having a human Resource implication and undertake such other duties or functions as may be assigned by the Board of Directors which are relevant to Human Resource and Administration.

Directors' Remunerations

Details of remuneration paid to the Directors are set out in the Remuneration Report on page 12.

Risk Management and Internal Control

The Board is responsible for the Institute's system of risk management and internal control, which is designed to manage rather than eliminate the risk of failure to achieve Institutes objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. The Board has delegated responsibility for the ongoing monitoring of the effectiveness of this system to the Risk and Audit Committee. The Board received regular reports from the Chairman of the Risk and Audit Committee on its activities during the year and in addition considered a report from the Audit Committee on the conduct of and the findings and agreed actions from the annual assessment of risk management and internal control.

Board Performance Evaluation

Under the guidelines issued by the State Corporations Advisory Committee (SCAC), and the Performance Management office The Board is responsible for ensuring that a rigorous evaluation is carried out of its performance, and that of its committees and individual directors. The evaluation is conducted annually and the results of the evaluation are provided to the Ministry of Industrialization and Enterprise Development, SCAC and office of the President on Performance contracting.

Institute's Conduct Guidelines

The Guidelines set out the KIRDI's commitment to the highest standards of integrity. They have been circulated to employees across the Institute and are also available on the Institute's website www.kirdi.go.ke. A range of measures were developed to ensure that employees in the Institute remained aware of the Guidelines and of the general need to ensure that all the institute's activities were conducted in a compliant and ethical manner.

Ethical Policies

The values of the Institute are Customer focus, Innovativeness and creativity, Integrity and professionalism, Quality, Partnerships and teamwork and Environmental Protection. The Board carries out its legal duties in accordance with these values and having appropriate regard to the interests of the KIRDI's stakeholders. Policies and codes of conduct have been established by the Board and management to support the Institute's objectives, vision and values.

Statement of Professional Practice

The Institute's code of ethics, known as the KIRDI Code of Conduct, sets standards of behavior required of all employees and Directors including:

- ✓ To act properly and efficiently in pursuing the objectives of the Institute;
- ✓ To avoid situations which may give rise to a conflict of interest;
- ✓ To know and adhere to the Institute's Equal Employment Opportunity policy and programs;
- ✓ To maintain confidentiality in the affairs of the Institute and its stakeholders; and
- ✓ To be absolutely honest in all professional activities.

These standards are regularly communicated to the Institute's staff.

Going Concern

The Institute's activities, together with the factors likely to affect its future development, performance and position are set out in the Report of the Chief Executive's officer on pages xviii to xx. The financial position of the Institute, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 1 to 23.

Having assessed the relevant operational risks, the Directors believe that the Institute is well placed to manage its operational risks successfully. The Directors have a reasonable expectation that the Institute has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Workplace Responsibilities, Behaviors and Compliance

The Institute is strongly committed to maintaining an ethical workplace and to complying with its legal and ethical responsibilities. The Institute has a number of policies relating to workplace responsibilities, behaviors and compliance that apply to and must be observed by staff.

The Institute has a system in place which allows staff to report (and remain anonymous if they wish) suspected fraud or corrupt, unlawful or improper conduct.

MANAGEMENT DISCUSSION AND ANALYSIS

The Institute completed the construction of Leather annex building in KIRDI Kisumu. The institute also completed the installation of the leather processing and common manufacturing facilities. The laboratories will enhance the quality of research and technology development, increase the number of MSMEs supported as well as increase the amount of internally generated income (A-in-A). The construction of Research, Technology and Innovation laboratories in KIRDI South B stagnated at 64% completion level due to inadequate funding. Only Kshs.10 million out of the expected Kshs.600 million was allocated for the project in the 2018/19 financial year.

During the 2018/19 financial year, the Institute supported 584 MSMEs through provision of Common Manufacturing Facilities, Technology incubation, Training and capacity building and Laboratory services against a target of 500 MSMEs. The Institute upgraded twenty (20) MSMEs products to achieve global competitiveness.

During the 2018/19 financial year the Institute realized internally generated incomes (A-in-A) of Kshs.20.4 Million against a target of Kshs.39 Million. The target was not achieved on account of inadequate funds for repair and maintenance of the Institute's service centers.

The project has run behind the completion schedule due to inadequate funding. The major risk for the Institute is cost overrun due to delay in completion as a result of the budget cuts.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

At KIRDI, we are committed to conducting our business in a socially responsible and ethical manner to create a competitive work environment. The institute recognizes its responsibility to contribute positively to the community that supports it. Below are a few examples of how the Institute and its staff have shown their commitment to practice responsible corporate behavior.

I. Working Environment

KIRDI employees are an important asset to the institute. The institute endeavours to provide a work environment where employees are appreciated, valued and given regular feedback. All staff work in an open space promoting an 'open door' culture which encouraged communication and collaboration. Staff members are promoted based on merits and skill and are not discriminated in any way.

II. Customer Service

KIRDI nurtures our relationships with customers based on quality products, honesty and service delivery by providing Industrial Research, Technology and Innovation services that meets the needs and expectations of our customers.

III. Environment

The institute has an environmental policy statement that drives the Institution in ensuring that all its activities are friendly to the environment and guarantee sustainability in resource utilization.

IV. Compliance

KIRDI is conscious of its obligations to comply with all relevant legislation affecting its operations. KIRDI has continuously developed and implemented compliance policies, procedures and programs.

V. Fair Practices

KIRDI ensures adherence to the tendering processes for goods and services as prescribed in The Public Procurement and Asset Disposal Act, 2015. Employees are educated about the laws to this end. They are required to deal with stakeholders honestly and at arm's length.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30th, 2019 which show the state of the Institute's affairs.

Principal activities

The principal activity of the Institute is to undertake Industrial Research Technology and Innovation and disseminate findings that will have a positive impact on the national development.

Results

The results of the entity for the year ended June 30, 2019 are set out on page 1 of this report.

Directors

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

Auditors

The Auditor General is responsible for the statutory audit of the Institute in accordance with the provisions of Public Finance Management (PFM) Act, 2012.

By Order of the Board

Sign: 

MS. FLORENCE MUMBI MWIKYA
CORPORATE SECRETARY

Date: 31/08/2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

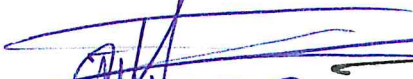
The Directors are responsible for the preparation and presentation of the Institute's financial statements, which give a true and fair view of the state of affairs of the Institute for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes: (i) maintaining 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 Institute; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.


The Directors accept responsibility for the Institute'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 Reporting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Institute's financial statements give a true and fair view of the state of Institute's transactions during the financial year ended June 30th, 2018, and of the Institute's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Institute, which have been relied upon in the preparation of the Institute'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 Institute will not remain a going concern for at least the next twelve months from the date of this statement.

The Kenya Industrial Research and Development Institute's financial statements were approved by the board on 27/09/2019 and signed on its behalf by:

The Kenya Industrial Research and Development Institute's financial statements were approved by the board on 27/09/2019 and signed on its behalf by:

 Director

 Director

 Director

REPUBLIC OF KENYA

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Enhancing Accountability

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Anniversary Towers
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P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Industrial Research and Development Institute set out on pages 1 to 22, which comprise of the statement of financial position as at 30 June, 2019, statement of financial performance, statement of changes in net assets, statement of cash flows and the 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, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Kenya Industrial Research and Development Institute as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Science, Technology and Innovation Act, 2013 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Lack of Revaluation of Property, Plant and Equipment

As disclosed in Note 13 to the financial statements, the statement of financial position reflects property, plant and equipment balance of Kshs.4,076,195,410. However, other than motor vehicles with a net book value of kshs.32,572,500 which were revalued in course of the year, the other assets with a net book value of Kshs.4,043,622,910 had its last valuation conducted in 1980, over thirty-nine (39) years ago. The long delay contravenes International Accounting Standard No.16 which stipulates that property, plant and equipment be revalued after every five (5) years.

Consequently, the value of property, plant and equipment balance of Kshs. 4,043,622,910 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

2. Unsupported Retentions

As disclosed in Note 20 to the financial statements, the statement of financial position reflects contractor's retention money of Kshs.218,248,140. However, Management did not provide supporting documents such as bank certificates to confirm the availability of the amounts for discharging the liabilities when they fall due.

Consequently, the accuracy and completeness of contractor's retention money of Kshs.218,248,140 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

3. Long Outstanding Accounts Receivables

As disclosed in Note 15 to the financial statements, the statement of financial position reflects account receivables balance of Kshs.8,722,485. Included in the balance is Kshs.4,754,436 being excess medical expenditure due for recovery from some members of staff. Out of this balance, an amount of Kshs.1,581,599 relates to officers who have since passed on. The Institute does not have policies that give clear guidance on provisions to be made in case of death of a staff member. In addition, the rate of the recovery of the outstanding dues is low with some balances having not been recovered at all.

In the circumstances, the recoverability of the excess medical receivable balance of Kshs.4,754,436 cannot be confirmed.

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

Emphasis of Matter

Material Uncertainty Related to Going Concern

I draw attention to page xxii where Management has put up a justification for the continued preparation of the financial statements on a going concern basis. However, a review of the Institute's financial performance for the year ended 30 June, 2019 indicated a net deficit of Kshs.29,173,978 (2017/2018 - deficit of Kshs.164,721,477). This is despite the fact that the Government disbursed a recurrent grant of Kshs.535,707,396 to the Institute during the year under review. Further, the Institute's statement of financial position as at 30 June, 2019 reflects current liabilities of Kshs.171,219,445 which exceeded current assets of Kshs.119,739,934 by Kshs.51,479,511 resulting into a negative working capital. The Institute is likely to face significant financial difficulties in meeting its financial obligations as and when they fall due and the future survival as a going concern will be dependent on creditors' and Government support.

These events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Institute's ability to continue as a going concern.

My opinion is not modified in respect of this matter.

Key Audit Matters

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

Other Matter

1. Long Outstanding Debt

1.1. Debt from Kenya National Cleaner Production Centre

The Institute entered into a Memorandum of Understanding (MOU) with Kenya National Cleaner Production Centre (KNCPC) in October, 2013 for a period of two (2) years where the Centre was to be hosted by the Institute. At the end of the MOU and through a Board of Directors resolution dated 6 April, 2017 the Management wrote to the Centre for claim of rent and utility costs. An amount of Kshs.58,950 per month was to be paid from 1 January, 2018 and Kshs.257,163 from 1 January, 2019 as per letter dated 15 November, 2017 and invoice No.6909 dated 15 January, 2019. However, review of the Institute's records showed that a receivable has not been recognized in respect of the rent and utility costs of Kshs.2,250,378 (Kshs.707,400 for year 2018 and Kshs.1,542,978 to June, 2019).

Management should engage the Centre with a view to signing a binding contract that is enforceable in a court of law in order to recognize the amounts owing.

1.2. Amount due from a Court Ruling

The Institute was involved in a court case with one of its staff where the staff took the Institute to court for contempt in 2014. The case was dismissed with costs and the court issued a certificate of taxation on 23 November, 2018 where the Institute was to claim Kshs.104,540 from the staff. However, the amount has neither been recovered, despite the time lapse, nor has it been captured as a receivable.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Delay in Completion of the Proposed Techno Centre

The Institute contracted a firm for implementation of the proposed Techno Centre in Nairobi, that commenced on 25 February, 2013 at an estimated contract sum of Kshs.3,933,008,763. The contract was to take 156 weeks with a completion date of 3 March, 2016. According to the Architect's progress report as at 30 June, 2019, the project was approximately 63.5% complete having taken 329 weeks while the project contract price had been revised to Kshs.4,812,400,054. There was no notable progress on site for as at 30 June, 2019.

Further, there were extra costs incurred due to idle staff and machinery and interest on delayed payments, which amounted to Kshs.33,805,849 as per certificate No.34 dated 11 October, 2019.

In the circumstances, the public may not get value for money for the delayed project as well as loss arising from continued penalties and interests on delayed payments which could be avoided.

2. Unutilized Resource Centres

The Institute planned for the construction of Research, Technology and Innovation (RTI) Laboratories at the Kisumu Western Region Centre. This was to be composed of Leather Pilot Plant and Research Laboratories, Food Processing Research Laboratories, Energy Resource Testing and Research Laboratories, Natural Products Pilot and Research Laboratories and, Administration offices & Business Incubation Unit, for purposes of enhancing and achieving its mandate.

The contract was awarded to a firm commenced on 15 April, 2011 at a contract sum of Kshs.641,410,058 and completed on 25 October, 2016 at a final costs of Kshs.783,138,524.

Physical verification undertaken during the month of October, 2019 revealed that the Food Processing, Energy Resource Testing and Natural Products Pilot Research Laboratories were not being utilized despite being complete due lack of machinery.

In the circumstances, the buildings did not achieve the intended purpose, showing lack of proper use of public resources.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

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

Responsibilities of Management and Board of Directors

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

In preparing the financial statements, Management is responsible for assessing the Institute's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Institute or to cease operations.

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

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

The Board of Directors is responsible for overseeing the Institute's financial reporting process, reviewing the effectiveness of how the Institute monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall

governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the 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 Institute's ability to continue as a going concern. 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 Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Institute 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.


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

19 August, 2021

Report of the Auditor-General on Kenya Industrial Research and Development Institute for the year ended 30 June, 2019

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30TH JUNE 2019

| | NOTES | 2018/2019 KSHS. | 2017/2018 KSHS. |
|--|-------|---------------------|----------------------|
| REVENUE | | | |
| Income from non-exchange transactions | | | |
| Re-Current Grants | 2 | 535,707,396 | 578,751,833 |
| Deferred grant income | 3 | 106,690,117 | 95,599,768 |
| Donor funds received | 4 | 25,972,280 | 44,720,898 |
| | | 668,369,793 | 719,072,499 |
| Income from exchange transactions | | | |
| Rendering of services | 5 | 20,452,388 | 20,515,990 |
| Total revenue | | 688,822,181 | 739,588,489 |
| EXPENSES | | | |
| Employee Costs | 6 | 519,384,285 | 557,629,207 |
| Directors remuneration & expenses | 7 | 16,775,250 | 30,559,020 |
| Use of goods and services | 8 | 17,205,172 | 56,149,603 |
| General operating expenses | 9 | 16,344,450 | 63,557,059 |
| Contracted services | 10 | 9,698,254 | 12,441,622 |
| Repairs and maintenance | 11 | 6,133,364 | 27,174,002 |
| Research feasibility studies and projects | 12 | 4,639,477 | 31,994,533 |
| Depreciation and amortization expenses | 13 | 106,690,117 | 95,599,768 |
| Donor funds expense | 4 | 21,125,790 | 29,205,152 |
| | | 717,996,159 | 904,309,966 |
| SURPLUS/(DEFICIT) FOR THE YEAR | | (29,173,978) | (164,721,477) |

The notes set out on pages 8 to 20 form an integral part of these financial statements

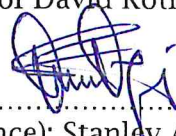
STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2019

| ASSETS | NOTES | 2018/2019 KSH | 2017/2018 KSH |
|--|-------|----------------------|----------------------|
| NON CURRENT ASSETS | | | |
| Property, Plant and Equipment | 13 | 4,076,195,410 | 4,114,967,895 |
| R & D Projects | 14 | 160,424,504 | 160,424,504 |
| Total | | 4,236,619,914 | 4,275,392,399 |
| CURRENT ASSETS | | | |
| Accounts Receivable | 15 | 8,722,485 | 20,077,576 |
| Cash and Cash Equivalents | 16 | 110,067,726 | 47,326,062 |
| Stores and inventory | 17 | 949,723 | 1,199,513 |
| Total | | 119,739,934 | 68,603,151 |
| TOTAL ASSETS | | 4,356,359,848 | 4,343,995,550 |
| ACCUMULATED FUNDS & LIABILITIES | | | |
| Capital funds G.O.K | 18 | 4,316,328,602 | 4,269,588,719 |
| Revenue Reserves | 19 | (349,436,339) | (316,956,760) |
| Accumulated Funds | | 3,966,892,263 | 3,952,631,959 |
| NON-CURRENT LIABILITIES | | | |
| Retentions | 20 | 218,248,140 | 216,611,493 |
| CURRENT LIABILITIES | | | |
| Accounts payable | 21 | 136,801,432 | 145,880,575 |
| Unused Project Funds | 22 | 32,460,013 | 27,613,523 |
| Provisions | 23 | 1,958,000 | 1,258,000 |
| Total | | 171,219,445 | 174,752,098 |
| TOTAL ACCUMULATED FUNDS & LIABILITIES | | 4,356,359,848 | 4,343,995,550 |


The financial statements set out on pages 8 to 20 were signed on behalf of the Board by:

Signature: 
Director/CEO: Prof David Rotich Tuigong

Date:

Signature: 
Assistant Director (Finance): Stanley Abonyo-ICPAK 6651

Date: 31/08/2020

Signature: 
Chairperson: Hon. Lelelit Lati

Date: 31/08/2020

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30TH JUNE 2019

| | Capital Funds Kshs. | Revenue Reserve Kshs. | Total Kshs. |
|--|------------------------------------|--------------------------------------|------------------------|
| As at 30th June 2017 | 3,987,332,149 | 78,799,206 | 4,066,131,355 |
| Prior year adjustments | 227,145,150 | (227,145,150) | - |
| G.O.K Grants (net increase) | 150,711,188 | | 150,711,188 |
| Amortization | (95,599,768) | | (95,599,768) |
| Project grants transfer | | 11,626,407 | 11,626,407 |
| Surplus/(Deficit) for the year | | (164,721,477) | (164,721,477) |
| Unutilized Donor funds for the year | | (15,515,746) | (15,515,746) |
| As at 30th June 2018 | 4,269,588,719 | (316,956,760) | 3,952,631,959 |
| Prior year adjustments | - | 1,540,889 | 1,540,889 |
| G.O.K Grants (net increase) | 110,000,000 | | 110,000,000 |
| Amortization | (106,690,117) | | (106,690,117) |
| Revaluation reserve | 43,430,000 | | 43,430,000 |
| Surplus/(Deficit) for the year | | (29,173,978) | (29,173,978) |
| Unutilized Donor funds for the year | | (4,846,490) | (4,846,490) |
| As at 30th June 2019 | 4,316,328,602 | (349,436,339) | 3,966,892,263 |

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30th JUNE 2019

| | Note | 2018/2019 Kshs. | 2017/2018 Kshs. |
|---|------|---------------------|----------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Operating surplus/(deficit) | | (29,173,978) | (164,721,477) |
| Adjustment for items not involving movements of cash: | | | |
| Deferred grant income | 3 | (106,690,117) | (95,599,768) |
| Depreciation expenses | 13 | 106,690,117 | 95,599,768 |
| prior year adjustments | 24 | 1,540,889 | - |
| Project funds surplus | 4 | (4,846,490) | (3,889,339) |
| Surplus/Deficits before working capital changes | | (32,479,579) | (168,610,816) |
| WORKING CAPITAL CHANGES | | | |
| Decrease in inventories | 17 | 249,790 | 2,117,679 |
| Decrease (increase) Accounts receivable | 15 | 11,355,091 | (7,320,631) |
| Increase (decrease) in provisions | 23 | 700,000 | (696,000) |
| Decrease (increase) in Accounts payable | 21 | (7,442,496) | 130,539,797 |
| Changes in Working capital | | 4,862,385 | 124,640,845 |
| Net cashflow generated from Operating Activities | | (27,617,194) | (43,969,971) |
| Cash Flow in Investing Activities: | | | |
| Additions to Property, plant and Equipment | 13 | (24,487,632) | (148,596,440) |
| Cashflow from financing: | | | |
| Capital grants | | 110,000,000 | 150,711,188 |
| Increase from Donor project funding | | 4,846,490 | 3,889,339 |
| Net cash generated from financing activities | | 114,846,490 | 154,600,527 |
| Net increase/ decrease in cash and cash equivalents | | 62,741,664 | (37,965,884) |
| Cash at the beginning of the year | | 47,326,062 | 85,291,946 |
| Cash at the end of the year | 16 | 110,067,726 | 47,326,062 |

Kenya Industrial Research and Development Institute (KIRDI)
Annual reports and Financial Statements
For the year ended June 30th 2019

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS - RECURRENT
BUDGET 2018/2019**

| | Original Budget | Adjustment | Final Budget | Actual comparable basis | Performance difference | Percentage variance | Note |
|--|--------------------|--------------|--------------------|-------------------------------|---------------------------|------------------------|------|
| Revenue | Kshs | Kshs | Kshs | Kshs | Kshs | % | |
| Rendering of services | 39,000,000 | - | 39,000,000 | 20,452,388 | (18,547,612) | -48 | i |
| Government grants | 546,640,200 | | 546,640,200 | 535,707,396 | (10,932,804) | -2 | |
| Donor funds | - | | 21,125,790 | 25,972,280 | 4,846,490 | 23 | ii |
| Total income | 585,640,200 | - | 606,765,990 | 582,132,064 | (24,633,926) | -4 | |
| Expenditure | | | | | | | |
| Compensation of Employees | 545,360,000 | (24,286,560) | 521,073,440 | 519,384,285 | (1,689,155) | 0 | |
| Board expenses, conferences and seminars | 14,500,000 | (863,440) | 13,636,560 | 16,775,250 | (3,138,690) | -23 | iii |
| Goods and services | 9,500,000 | 4,550,000 | 14,050,000 | 17,205,172 | (3,155,172) | -22 | iv |
| General expenses | 6,480,200 | 10,000,000 | 16,480,200 | 16,094,660 | 385,540 | 2 | |
| Contracted services | 4,100,000 | 5,600,000 | 9,700,000 | 9,698,254 | 1,746 | 0 | |
| Repairs and Maintenance | 1,700,000 | 5,000,000 | 6,700,000 | 6,133,364 | 566,636 | 8 | |
| Donor fund expenses | - | - | 21,125,790 | 21,125,790 | - | 0 | |
| Other payments (RT&I expenses) | 4,000,000 | - | 4,000,000 | 4,639,477 | (639,477) | -16 | v |
| Total Expenditure | 585,640,200 | - | 606,765,990 | 611,056,252 | (4,290,262) | -1 | |
| Surplus/(Deficit) | - | - | - | (28,924,188) | (28,924,188) | | |

Refer to Note 30

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS -
DEVELOPMENT BUDGET 2018/2019**

| | Original Budget | Adjustment | Final Budget | Actual comparable basis | Performance difference | Percentage variance | Note |
|--|--------------------|------------|--------------------|-------------------------|------------------------|---------------------|------|
| Revenue | Kshs | Kshs | Kshs | Kshs | Kshs | % | |
| Development grants | 110,000,000 | - | 110,000,000 | 110,000,000 | - | - | |
| Expenditure | | | | | | | |
| Purchase of specialized materials and supplies | | | | | | - | |
| Construction of Buildings | 10,000,000 | - | 10,000,000 | 23,454,628 | (13,454,628) | -135 | vi |
| Refurbishment of Buildings | | | | | | - | |
| Construction of civil works | | | | | | - | |
| Purchase of Motor vehicles | | | | | | - | |
| Purchase of Furniture & General Equipment | | | | | | - | |
| Purchase of specialized equip plant and machinery | 100,000,000 | - | 100,000,000 | 73,509,456 | 26,490,544 | 26 | vii |
| Rehabilitation and Renovation of plant Equipment/machinery | | | | | | | |
| Research, Feasibility Studies, project design ,Preparation & Supervision | | | | | | | |
| Total | 110,000,000 | - | 110,000,000 | 96,964,084 | 13,035,916 | 12 | |

Refer to Note 31

Budget variances

The over-expenditure (negative variances) reflected in recurrent and development budget vote-lines were due to the following:

(i) Rendering of services

Delay in disbursement of government grants particularly in the first quarter affected the commencement of key procurement activities needed for operations.

(ii) Donor Funds

The positive balance is the unutilized fund from donor collaborative projects which is guide by project activities that spread to subsequent financial year(s).

(iii) Board expenses, conferences and seminars

The negative variance of Kshs.2.8 million was due to unforeseen contingencies in the line item as a result of an unanticipated increase in activities that demand the attention of the Board during the year.

(iv) Use of Goods and services

The negative variance of Kshs.3.2 million under this budget-line was a result of an overall Budget-cut of KshS.10.9 million in the recurrent allocation for the year.

(v) Research and development project activities

The negative variance of Kshs.1.3 million was occasioned by under providing for the core mandate (RTI programs) due to limited resources in the approved budgetary allocation.

(vi) Construction of buildings

The negative variance of Kshs.13.4 million was a result of underfunding for activities in the construction of Leather annex at the Kisumu center. The original budget proposal was Kshs. 610 million out of which Kshs. 110 million was approved and the project activities had been scaled down significantly.

(vii) Purchase of specialized equipment, plant and machines

The underutilized amount of Kshs. 27,446,292 under purchase of specialized plant and equipment was due to delay in the procurement process for the second batch of equipment.

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Principal accounting policies

Basis of Preparation

- (a) The financial Statements have been prepared in accordance with International Public Sector Reporting standards (IPSAS) under the historical cost convention except where otherwise stated in the Accounting policies below. In compliance with Public Finance Management Act 2012, the established Public sector accounting standards Board, PSASB published the Standards which took effect for the financial year ended 30th June 2014. The Financial Statements are prepared on accrual basis. Where necessary, comparative figures for the previous financial year have been reconfigured to conform to required changes in presentation.

(b) **Currency**

The Financial Statements are presented in Kenya Shillings which is the functional and reporting currency.

(c) **Property, Plant and Equipment**

The fixed assets are stated at cost or as revalued on existing use basis from when the institute started self accounting, i.e. 1st July, 1980.

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Gains and losses on disposal of property, plant and Equipment are determined by reference to their carrying amount in determining operating surplus. On disposal of revalued assets, the revaluation surplus relating to that asset are transferred to retained earnings.

(d) **Depreciation**

Provision is made for depreciation on the straight-line method designed to write off the original cost or valuation of fixed assets

other than land, and work in progress over the actual life of the asset. A whole year's depreciation is charged on assets acquired nine months or more prior to the closure of the financial year and none to those acquired three months or less to the end of the financial year. The annual rates for this purpose are: -

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | |
|-------------------------------------|---|
| 1. Building | 2% |
| 2. Machines | 12.5% or as per valuer's recommendation |
| 3. Motor vehicles | 25% |
| 4. Office furniture & equipment ... | 12.5% or as per valuer's recommendation |
| 5. Computers | 30% |

(e) Revenue

The major source of income of this institute are the grants from the Government and the nominal charges of analysis fees from industrial manufacturers, potential entrepreneurs who need laboratory reports on their products and charge services offered to micro, small and medium enterprises. Income is recognized on an accrual basis.

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

(f) Bad Debts

Bad debts may be written-off on approval by the Board as guided by the institute's Finance Policies and Procedures and the regulation of The PFM Act, 2014..

(g) Stores and Inventory

Stock is valued at cost with the exception of donations which is reported at revaluation. Loose tools acquired as donation are amortized annually at a uniform rate over the period of their expected useful life.

(h) Insurance cost

Annual insurance costs are accounted for wholly in the year of commencement of covers that expire within two months after end of financial year and prorated otherwise.

(i) Retirement Benefits/Gratuity

The Institute operates a Retirement Benefit Scheme which is managed by Trustee Board under the Retirement Benefits Regulations (RBA)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

regulations. Further monthly remittances are made to a custodian for staff serving on Contract Terms which is eventually paid as gratuity at the expiry of the Contract.

(j) Government grants

Recurrent and Development grants have been accounted for in the Statement of Financial Performance in the year received. Capital grants are accounted for over the periods necessary to match them with the related costs which they are intended to compensate on a systematic basis.

(k) Accounts receivable

Accounts receivable are stated at anticipated realizable value.

(l) Accounts payable

Accounts payable are stated at nominal value.

(m) Budget information

The annual budget is prepared on accrual basis, and all planned costs and income are presented in separate statements as recurrent and development budgets to determine the operating needs of the Institute. The basis difference in preparation and presentation would require reconciliation between actual and comparable amounts and the amount presented as separate additional financial statement in the statement of comparison of budget and actual amounts.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank. Bank account balances includes amounts held at commercial banks at the end of the financial year.

(o) Research and development costs

The Entity expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Entity can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset

NOTES TO THE FINANCIAL STATEMENTS (Continued)

- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset

The ability to measure reliably the expenditure during development. Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

(p) Unused Project grants

Unused project fund surpluses are transferred to revenue reserves after completion of the projects.

Note 2: Recurrent grants

The institute receives grants from exchequer for personnel emoluments, operations and maintenance costs.

Note 3: Deferred grant income

Government grants and donations related to the acquisition of capital assets are recognized as deferred grant income in the statement of financial performance on a systematic basis over the period in which depreciation of related assets are charged.

Note 4: Donor Funds

| | 2018/2019 Kshs. | 2017/2018 Kshs. |
|-----------------------------|--------------------|--------------------|
| Amount Received | 25,972,280 | 44,720,898 |
| Amount utilized in the year | (21,125,790) | (29,205,152) |
| Unutilized for the year | 4,846,490 | 15,515,746 |
| Amount held at beginning | 27,613,523 | 12,097,777 |
| Closing balance | 32,460,013 | 27,613,523 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 5: Rendering services

| | 2018/2019 | 2017/2018 |
|--------------------------|-------------------|-------------------|
| | Kshs. | Kshs. |
| Rents and sundry revenue | 3,020,385 | 6,106,630 |
| Service fees | 17,432,003 | 14,409,360 |
| Total | 20,452,388 | 20,515,990 |

Note 6. Employee Costs

| | 2018/2019 | 2017/2018 |
|-------------------------------------|--------------------|--------------------|
| | Kshs. | Kshs. |
| Basic salary | 254,256,825.00 | 254,132,230 |
| House allowance | 100,753,969 | 92,700,679 |
| Other personal allowance | 39,493,146 | 39,703,758 |
| Medical risk Allowance | 9,793,137 | 11,734,464 |
| Medical Expenses | 32,230,085 | 20,873,531 |
| Passage and Leave | 5,838,682 | 5,464,075 |
| Training expenses | 2,428,759 | 17,968,039 |
| Group life & personal accident(GPA) | 1,379,592 | 1,557,251 |
| Fees commission and Honoraria | 2,819,400 | 13,309,903 |
| Gratuity, Pension and NSSF | 58,779,313 | 52,161,272 |
| Travelling and subsistence | 11,611,377 | 48,024,005 |
| Total | 519,384,285 | 557,629,207 |

Note 7. Directors remuneration and Board expenses

| | 2018/2019 | 2017/2018 |
|-------------------------------|-------------------|-------------------|
| | Kshs. | Kshs. |
| Sitting allowances | 2,832,000 | 6,400,000 |
| Travel costs | 3,936,579 | 5,877,140 |
| Hospitality & insurance costs | 1,836,559 | 7,402,508 |
| Conferences and seminars | 2,699,628 | 3,495,385 |
| Daily subsistence | 4,510,484 | 6,621,320 |
| Remuneration & honoraria | 960,000 | 762,667 |
| Total | 16,775,250 | 30,559,020 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 8. Use of goods and services

| | 2018/2019 Kshs. | 2017/2018 Kshs. |
|------------------------------|--------------------|--------------------|
| Transport operation expenses | 2,605,959 | 2,968,502 |
| Postal and telecom expenses | 2,186,537 | 10,151,113 |
| Telephone expenses | 247,703 | 7,393,768 |
| Official entertainment | 3,298,083 | 15,781,854 |
| Electricity | 6,934,981 | 8,367,017 |
| Gas purchase | 419,945 | 7,618,574 |
| Water and conservancy | 1,511,964 | 3,868,775 |
| Total | 17,205,172 | 56,149,603 |

Note 9. General operating expenses

| | 2018/2019 Kshs. | 2017/2018 Kshs. |
|---------------------------------------|--------------------|--------------------|
| Publishing and printing | 938,655 | 9,496,040 |
| Purchase of consumables | 1,624,511 | 8,864,218 |
| Uniform and clothing | 17,405 | 2,521,296 |
| Library expenses | 608,102 | 3,068,483 |
| Purchase of stationery | 1,597,661 | 13,095,451 |
| Advertising and publicity | 12,340 | 1,811,628 |
| Show expenses and market research | 404,210 | 0 |
| Rent and rate(non-residential) | 693,000 | 3,584,514 |
| Computer expenses | 2,656,080 | 13,727,609 |
| Misc. and other charges | 1,096,490 | 0 |
| Contribution to other bodies | 357,997 | 0 |
| Provision for audit fee | 700,000 | 700,000 |
| Laboratory chemicals | 1,768,107 | 305,433 |
| Refined fuels & lubricants-production | 22,550 | 607,758 |
| Insurance of property | 3,597,552 | 3,656,950 |
| Decrease in stock (Note 17) | 249,790 | 2,117,679 |
| Total | 16,344,450 | 63,557,059 |

Note 10. Contracted services

| | 2018/2019 Kshs. | 2017/2018 Kshs. |
|---------------------------------------|--------------------|--------------------|
| Contracted guards & cleaning services | 9,101,625 | 10,335,253 |
| Contracted professional services | 596,629 | 2,106,369 |
| Total | 9,698,254 | 12,441,622 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 11. Repairs and Maintenance

| | 2018/2019 Kshs. | 2017/2018 Kshs. |
|--------------------------------------|--------------------|--------------------|
| Maint. of office, furniture & equip. | 2,052,836 | 7,332,729 |
| Maint. of build. & stations-non res. | 878,371 | 5,652,524 |
| Maint. of plant machinery & equip. | 2,189,196 | 7,937,987 |
| Maint. exp-motor vehicles | 1,012,961 | 6,250,762 |
| Total | 6,133,364 | 27,174,002 |

Note 12. R & D Expenses

| | 2018/2019 Kshs. | 2017/2018 Kshs. |
|---|--------------------|--------------------|
| Research feasibility studies & projects | 4,639,477 | 31,994,533 |

The expenditure on R& D projects amounting Kshs. 4,639,477 includes travel expenses for the year is related to feasibility studies, project preparation, designs and supervision.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 13: Fixed Assets Schedule

| | LAND | WORK IN PROGRESS | BUILDINGS | MACHINERY & EQUIPMENT | MOTOR VEHICLES | FURNITURE & FITTINGS | COMPUTERS & EQUIPMENT | TOTAL |
|--------------------------------------|------------|---------------------|---------------|-----------------------------|-------------------|-------------------------|-----------------------------|---------------|
| | SHS | SHS | SHS | SHS | SHS | SHS | SHS | SHS |
| VALUE/COST | | | | | | | | |
| as at 1/7/2018 | 26,865,000 | 2,782,454,820 | 1,088,221,014 | 666,329,430 | 76,114,232 | 42,547,527 | 55,260,328 | 4,737,792,351 |
| Additions during the year | - | 23,454,628 | - | 797,726 | - | 119,280 | 115,998 | 24,487,632 |
| Revaluation Adjust. | - | - | - | - | 43,430,000 | - | - | 43,430,000 |
| TOTAL | 26,865,000 | 2,805,909,448 | 1,088,221,014 | 667,127,156 | 119,544,232 | 42,666,807 | 55,376,326 | 4,805,709,983 |
| 30/6/2019 | | | | | | | | |
| Depreciation for previous year | 383,786 | - | 21,764,420 | 68,623,891 | - | 2,211,955 | 2,615,716 | 95,599,768 |
| Accumulated Depreciation b/f | 383,786 | - | 120,217,024 | 345,466,153 | 76,114,232 | 30,960,853 | 49,682,408 | 622,824,456 |
| Depreciation/Amortz for this year | 383,786 | - | 21,764,420 | 68,649,973 | 10,857,500 | 2,343,158 | 2,691,280 | 106,690,117 |
| Total Depreciation | 767,572 | - | 141,981,444 | 414,116,126 | 86,971,732 | 33,304,011 | 52,373,688 | 729,514,573 |
| Net Book Value | | | | | | | | |
| 30/6/2019 | 26,097,428 | 2,805,909,448 | 946,239,570 | 253,011,030 | 32,572,500 | 9,362,796 | 3,002,638 | 4,076,195,410 |
| Net Book Value | | | | | | | | |
| 30/6/2018 | 26,481,214 | 2,782,454,820 | 968,003,990 | 320,863,277 | 0 | 11,586,674 | 5,577,920 | 4,114,967,895 |

The capital work in progress relates to ongoing RTI laboratories construction project in Nairobi South B and the construction of Leather annex in Kisumu. A total of Kshs.11,773,428 and Kshs.11,681,200 was spend in Kisumu and South B projects respectively.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 14: R & D Projects

These is composed of expenditure amounting Kshs.160,424,504 transferred from Development vote to R & D on recognition that R & D projects will generate future economic benefits.

The Institute intends to patent its research discoveries which includes prototype development, designs and pilot plants.

Note 15: Accounts Receivable

| | 2018/2019 Kshs. | 2017/2018 Kshs. |
|---|----------------------------|----------------------------|
| Ministry of Industrialization | 2,269,482 | 10,000,000.00 |
| National Industrial Training Authority | 2,460,000 | 2,460,000 |
| Less: Provision for doubtful debts | (2,460,000) | 0 |
| Traveling imprest(Local) | 72,200 | 0 |
| Temporary imprest | 347,743 | 592,780 |
| Standing Imprest | 0 | 910,000 |
| Salary advance | 360,996 | 344,098 |
| Excess medical | 4,754,436 | 4,719,351 |
| Excess medical insurance | 153,490 | 153,490 |
| Plot scheme | 0 | 133,719 |
| Fuel deposit | 366,000 | 366,000 |
| Oxygen deposit | 30,000 | 30,000 |
| Hospital deposit | 10,000 | 10,000 |
| Electricity deposit-Kisumu | 308,138 | 308,138 |
| Electricity deposit-South C & Eldoret | 50,000 | 50,000 |
| Total | 8,722,485 | 20,077,576 |

Note 16: Cash and Bank balance

| | 2018/2019 Kshs. | 2017/2018 Kshs. |
|---------------------------------------|----------------------------|----------------------------|
| HQ(main Account) | 37,723,081 | 46,162,477 |
| LDC A/c | 77,201 | 20,715 |
| EDSC A/c | 833,847 | 38,998 |
| Kisumu imprest A/c | 1,432,233 | 592,295 |
| LSC A/c | 1,031,282 | 69,877 |
| BBK A/c | 3,456,274 | 152,175 |
| NIIC/Projects Account | 10,006,758 | 7,863 |
| Mpesa Account | 6,757,050 | 281,662 |
| Bank Guarantee (letter of credit)-NBK | 48,750,000 | 0 |
| Total | 110,067,726 | 47,326,062 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 17: Stores and Inventories

| | 2018/2019 Kshs. | 2017/2018 Kshs. |
|----------------|--------------------|--------------------|
| General Stores | 949,723 | 1,199,513 |
| Loose tools | 0 | 0 |
| Total | 949,723 | 1,199,513 |

Decrease in stock (general stores) is Kshs.249,790.

Note 18: Capital funds G.O.K.

The Kshs.4,316,328,602 stated as Capital funds is the net accumulation of Development releases going way back to 1980 when the Institute began self-Accounting.

These represents grants received from the exchequer to finance acquisition of capital assets and other expenses related to research and development activities.

Note 19: Revenue Reserves

These represents the Institute's accumulated funds Account as balances brought forward for revaluation reserves and the surplus/deficit arising from the income and expenditure account.

Note 20: Retentions

These are retention monies on bills settled for construction contracts which are held for more than a year pending projects completion and expiry of defects liability period.

| | 2018/2019 Kshs. | 2017/2018 Kshs. |
|---------------------------|--------------------|--------------------|
| Balance at the beginning | 216,611,493 | 212,147,467 |
| Additions during the year | 1,636,647 | 6,578,774 |
| Amount paid in the year | 0 | (2,114,748) |
| Closing balance | <u>218,248,140</u> | <u>216,611,493</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 21: Accounts Payable

| | 2018/2019 Kshs. | 2017/2018 Kshs. |
|----------------------------|----------------------------|----------------------------|
| Payroll deductions | 45,881,151 | 53,449,453 |
| Miscellaneous deposits a/c | 3,478,170 | 334,332 |
| Other Creditors | 87,442,111 | 92,096,790 |
| Total | 136,801,432 | 145,880,575 |

Note 22: Project funds

| | 2018/2019 Kshs. | 2017/2018 Kshs. |
|------------------------------|----------------------------|----------------------------|
| National Research fund | 13,629,244 | 17,227,300 |
| Blue Economy Project | 8,024,161 | 8,073,525 |
| ICIPE Project | 1,831,281 | 2,312,698 |
| Green climate project-UN | 1,101,041 | - |
| Soda lake Project-KWS | 4,037,780 | - |
| GECKO Project-Denmark | | |
| Tekniske Univ. | 1,857,278 | - |
| SolCool Dry Project-BMEL/BLE | 61,075 | - |
| Technology localization UHL | | |
| MPH-UNIDO | 1,918,153 | - |
| Total | 32,460,013 | 27,613,523 |

Note 23: Provisions

| | 2018/2019 Kshs. | 2017/2018 Kshs. |
|--|----------------------------|----------------------------|
| Provision for Audit fee at the beginning | 1,258,000 | 1,954,000 |
| Additional for the year | 700,000 | 700,000 |
| Provision utilized in the year | - | (1,396,000) |
| Balance at year-end | 1,958,000 | 1,258,000 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 24: Prior year adjustments

A total amount of Kshs. 1,540,889 for cheques written in the previous year toward reimbursement of operational expenses had been cancelled and the respective amounts written back in cashbook during the year.

Note 25: Recurrent and Development expenditure

The expenditure is financed by both recurrent and development funds received from G.O.K.

Note 26. Related party transactions

At the closing of the financial year the institute had received the allocated grants in full from the ministry of Industry, Trade & Cooperatives.

Note 27. Contingent liabilities

At the year-end there were no contingent liabilities and subsequent events foreseeable.

Note 28: Financial risk management

The Institute has no significant risk attributed to accounts receivable. Services offered to clients are primarily on cash basis. Advances and prepayments are managed within approved policy parameters.

Note 29: Capital commitments

Authorized and contracted for is the proposed construction of RTI laboratories in Nairobi south B at a cost of Kshs.4,812,400,055.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 30: Statement of Reconciliation between the Comparison of Budgeted and Actual Amounts and Statement of Financial Performance as at 30th June 2019

RECURRENT BUDGET

| PARTICULARS | AMOUNT Kshs. |
|--|-------------------------|
| Deficit as per Statement of Comparisons of budget and actual amounts | 28,924,188 |
| Add: Decrease in stock-General stores adjustment (Note 17) | 249,790 |
| Deficit as per Statement of financial performance | 29,173,978 |

Note 31: Statement of Reconciliation between the Comparison of Budgeted and Actual Amounts and Statement of Financial Position as at 30th June 2019

DEVELOPMENT BUDGET

| PARTICULARS | AMOUNT Kshs. |
|---|-------------------------|
| Total expenditure as per Development budget | 96,964,084 |
| Less: Bank guarantee (LC) for equipment procurement (Note 16) | (48,750,000) |
| Acquisition of specialized equipment and machinery | (23,726,452) |
| Net increase in Assets as per statement of financial position (Note 13) | 24,487,632 |

APPENDIX 1: 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.

| Ref. No on the external audit Report | Issue/Observation 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 | Property, Plant and Equipment | | | | |
| 1.1 | Revaluation of non-current Assets The Audit observed that property, plant and Equipment valuation of the Institute was done more than two decades ago and thus the balance may not be fairly stated. | The government did not provide adequate funding for the activity that had initially been planned to be undertaken in the year. The Institute to consider budgetary allocation for the purpose in the subsequent year for property in Kisumu and Nairobi South C. | Director/Board of Directors | Construction work is on going for Property in Nairobi South B . However Motor vehicles have since been revalued | Not definite |
| 1.2 | Delay in Project Completion The institute procured vaghiyani enterprised to construct proposed RTI center in South B in February 2013 at contract sum of Ksh 3,933,763. which was to take 156 weeks. By 30th June 2018, a total of 277 weeks had lapsed and the project had not been completed . Also the contract sum had been varied to Ksh 4,812,400,054. Further an extra cost of Ksh 27,233,557 had been raised for interest and idle machinery. | The institute management is keenly and actively engaging the National Treasury to prioritize the financing and ensure completion of the project. | Director/Board of Directors | Not resolved | 3 years |

| Ref. No on the external audit Report | Issue/Observation 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) |
|--------------------------------------|--|--|--|---------------------------------|---|
| 2 | Retentions It was observed that Ksh 216,611,493 was held as contractor's retention money. The institute however did not set aside money to pay when they fall due or have capacity to honor its obligations. | It may well be noted that this were long term construction projects of which the Government would provide additional funding in the subsequent budget cycle after completion. | Director/Board of Directors | Not resolved | Not definite |
| 3 | Accounts Receivable It was observed that included in the Accounts receivable of Ksh 20,077,576 was Ksh4,719,351 being excess medical expenditure due for recovery from some members of staff and out of this balance Ksh 1,581,599 was outstanding in respect of staff excess medical expenses for officers who had since passed on. | In complying with the one-third salary rule the affected staff could not be subjected to further deductions. However some recoveries were made from Life insurance benefits as the Institute seek ways of enhancing the staff medical scheme. The management also is working on a policy guideline to mitigate future recurrence of similar cases. The management has also secured enhanced medical insurance cover for the staff. | Director/Board of Directors | Not resolved | June 2020 |

Signature: _____

Director/CEO

Date: _____

31/08/2020

Signature: _____

Chairperson

Date: _____

31/08/2020

APPENDIX II: INTER -ENTITY TRANSFERS

| KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE | | | | |
|---|---|----------------------------|---------------------|--|
| Breakdown of Transfers from the State Department of Industry | | | | |
| a | Recurrent Grants | Bank Statement Date | Amount Kshs. | F/y to which the Amount Relates |
| | Prior year's | 12/07/18 | 10,000,000 | 2017/18 |
| | 1 st Quarter | 10/09/18 | 136,660,050 | 2018/19 |
| | 2 nd Quarter | 07/12/18 | 128,460,447 | 2018/19 |
| | 3 rd Quarter | 19/02/19 | 136,660,050 | 2018/19 |
| | 4 th Quarter | 13/05/19 | 133,926,849 | 2018/19 |
| | Development Grant | | | |
| | 1 st Quarter | 11/10/18 | 5,000,000 | 2018/19 |
| | 2 nd Quarter | N/A | Nil | |
| | 1 st & 2 nd Quarter | 25/02/19 | 105,000,000 | 2018/19 |
| | 3 rd Quarter | N/A | Nil | |
| | 4 th Quarter | N/A | Nil | |
| | | | | |

The above amounts have been communicated to and reconciled with the parent ministry.

Assistant Director
(Finance) KIRDI

Sign.....



Ministry of Industry trade &
Co-operatives
Head of Accounting Unit

Sign.....



END OF REPORT

