

REPUBLIC OF KENYA



**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**KENYA LEATHER  
DEVELOPMENT COUNCIL**

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







## **KENYA LEATHER DEVELOPMENT COUNCIL**

---

### **ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED 30<sup>TH</sup> JUNE, 2019**

---

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

<b>TABLE OF CONTENT</b>	<b>PAGE</b>
KEY COUNCIL INFORMATION AND MANAGEMENT .....	iii
BOARD OF DIRECTORS OF THE COUNCIL .....	vi
MANAGEMENT TEAM .....	ix
CHAIRMAN'S STATEMENT .....	xii
REPORT OF THE CHIEF EXECUTIVE OFFICER.....	xiii
CORPORATE GOVERNANCE STATEMENT .....	xiv
MANAGEMENT DISCUSSIONS AND ANALYSIS .....	xv
CORPORATE SOCIAL RESPONSIBILITY (CSR) .....	xvii
REPORT OF THE BOARD OF THE COUNCIL.....	xviii
STATEMENT OF THE COUNCIL'S RESPONSIBILITIES .....	xix
REPORT OF THE INDEPENDENT AUDITOR ON KLDC.....	xx
STATEMENT OF FINANCIAL PERFORMANCE FOR YEAR ENDED 30 JUNE 2019 .....	1
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019.....	2
STATEMENT OF CHANGES IN NET ASSETS FOR YEAR ENDED 30 JUNE 2019 .....	3
STATEMENT OF CASH FLOWS FOR YEAR ENDED 30 JUNE 2019 .....	4
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS .....	5
NOTES TO THE FINANCIAL STATEMENTS .....	6
APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS.....	28
APPENDIX II: PROJECTS IMPLEMENTED BY THE COUNCIL .....	36
APPENDIX III: INTER-ENTITY TRANSFERS .....	37
APPENDIX IV: JOURNAL ENTRIES FOR PRIOR YEARS ADJUSTMENT .....	38



## **KEY COUNCIL INFORMATION AND MANAGEMENT**

### **(a) Background information**

The Kenya Leather Development Council (KLDC) is a State Corporation established by the Government of Kenya under the Kenya Leather Development Council Order, 2011 (Legal Notice No. 114 of the Kenya Gazette supplement No. 113 of 9<sup>th</sup> September 2011, under the State Corporation Act (Cap 446), laws of Kenya. The Council was instated as a specialized agency to drive the Government's agenda on the development of leather industry. To achieve this, the Council is expected to regulate and facilitate the growth of the industry. The Principle mandate of the KLDC is to drive the transformation of the leather value chain in the Country from a raw material/semi-processed export driven sector to a finished leather product manufacturing industry. KLDC is therefore a key driver of the "Big Four" Agenda under the Manufacturing Pillar. The roadmap to this success is embedded on strategic objectives which specifically address the key challenges facing it. The strategic objectives are aligned to the Council's mandate.

### **(b) Principal Activities**

The principal activity/mission of the Council is to:

- i) To provide advisory services to the Cabinet Secretary on matters relating to processing of and trade in hides, skins, leather and leather goods for planning purpose;
- ii) To promote, direct, coordinate, regulate, and harmonize all activities in the leather subsector;
- iii) To oversee licensing in the leather subsectors;
- iv) To undertake research and development activities in the leather industry;
- v) To Enforce compliance with set standards in collaboration with other relevant institutions in the industry.
- vi) To Mobilize technical and financial support for the leather subsector.
- vii) To Collect, store, analyze, and disseminate data on leather.
- viii) To Perform any other function, as the Cabinet Secretary may consider necessary.

### **(c) Key Management**

The Council's day-to-day Management was under the following key organs:

1. Board of the Council
2. Chief Executive Officer and
3. The Secretariat

### **(d) Fiduciary Management**

The key Management Personnel who held office during the financial year ended 30<sup>th</sup> June 2019 and who had direct fiduciary responsibility been:

<b>Designation</b>	<b>Name</b>
1. Chief Executive Officer	Dr. Issack M. Noor PhD.
2. Head Finance	CPA. Gladys Njeri Mwangi
3. Head Procurement	M/s. Clita Waswa
4. Head Monitoring and Evaluation	Mr. George J. Onyango

**(e) Fiduciary Oversight Arrangements**

**i) Finance and Governance Committee**

The Finance Committee reviews budgets initially prepared by management, to help develop appropriate procedures for budget preparations, and consistency between the budget and KLDC work plans. The Committee ensures regular, accurate monitoring and accountability for funds and report to the Board on any financial irregularities. The members are listed below; -

1)	Mr. Raphael Letimalo	Chairman
2)	Mr. Simon Atebe	Member, P.S Representative MoITC
3)	Mr. Henry Mutwiri	Member, alternate to P.S National Treasury
4)	Ms. Anne Lengerded	Member
5)	CPA Gladys Njeri Mwangi	Secretary

**ii) Audit Committee**

The Audit Committee analyses and addresses the risks that are associated with the key processes of the Council. The Audit Committee reports to the Board of any financial irregularities. The Audit Committee liaises with auditors on any significant matters arising. Oversees the financial reporting and disclosures processes. The members are listed below; -

1)	Mr. Elias K. Busienei	Chairman
2)	Mr. Stephen Karume	Member
3)	Mr. Mark Stephenson	Member
4)	Mr. Henry Mutwiri	Member, alternate to P.S National Treasury
5)	Mr. Edwin Ombaka	Secretary

**iii) Human Resource and Administration Committee**

The Committee discusses matters dealing with staff before presentation to Board for necessary approvals, coordination, and formal evaluation of Kenya Leather Development Council staff and report to the Board. Monitor and evaluate the Management industrial relations, employment law compliance, conduct and discipline, health and welfare and make recommendations to the Board. The members are listed below; -

1)	Mr. Elizabeth Kamau	Chairman
2)	Mr. Raphael Letimalo	Member
3)	Mr. Amina Wario	Member
4)	M/s. Anne Lengerded	Member
5)	Mr. Elias K. Busienei	Member
6)	Patrick Nyadimo	Secretary

**iv) Technical and Strategy Committee**

The Committee makes deliberations on technical matters on the Leather Sector and finally presents their recommendations to the Board of the Council. Review the Council performance contract, annual reports, work plan and performance contract documents. Review the Council's projects and policy recommendations for the leather sector. The members are listed below; -



1)	Mr. Mark Stephenson	Chairman
2)	Mr. Stephen Karume	Member
3)	Ms. Elizabeth Kamau	Member
4)	Ms. Amina Wario	Member
5)	M/s. Simon Atebe	Member, alternate to P.S State Department of Investment & Industry
6)	Mr. Charles Ndungu	Secretary

**(f) Entity Headquarters**

Kenya Leather Development Council  
P.O. Box 14480-00800  
CPA Centre 5<sup>th</sup> Floor  
Thika Super Highway  
**NAIROBI-KENYA**

**(g) Entity Contacts**

Telephone:(254) 0204442321  
Cell-phone:0737711549/0704617705  
Email: <http://www.leatherCouncil.go.ke>

**(h) Council Bankers**

Kenya Commercial Bank  
Sarit Centre Branch, Westlands  
P.O. Box 14959-00800  
**NAIROBI-KENYA**



**(i) Independent Auditors**

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

**(j) Principal Legal Adviser**





The Attorney General State  
Law Office Harambee  
Avenue  
P.O. Box 40112-0020, City Square  
**NAIROBI-KENYA**

## BOARD OF DIRECTORS OF THE COUNCIL

	Name	Key Professional/Academic Qualification
1.	 <p><b>Mr Abdi Bare Duale</b> Chairman</p>	<p>Mr Abdi is the Chairman of Kenya Leather Development Council. He is an experienced business executive with vast knowledge in starting up and running successful enterprises. Abdi is a trained entrepreneur with an MBA (International Trade) from Edith Cowan University, Australia. He has many business interests and is currently the Managing Director of Medina Chemicals Limited and the Executive Chairman of Nomad Palace Hotel Limited. Abdi previously served as a Board Member for Kenya Revenue Authority, Kenya Bureau of Standards and Nerix Pharma Limited.</p>
2.	 <p><b>Anne Rimbaine Lengerded</b> Member</p>	<p>Anne was born in 1969; she is a MCIPS (Member Chartered Institute of Purchasing &amp; Supplies- Professional stage. She holds Masters on Public Policy &amp; Analysis JKUAT and Bachelors of Commerce (finance option) Kenyatta University; she was a Board Member at Pastoralist Development Network, Tele Posta Sacco and various learning institutions. She got wide experience in Procurement matters.</p>
3.	 <p><b>Mr Henry Mutwiri</b> Rep. PS National Treasury</p>	<p>Mr Mutwiri was born in 1971; he has 22 years' work experience in finance related office. He holds a Degree in BBA, MBA-Finance, and Post-Graduate-Diploma in Financial Management and professional Diploma in Public Procurement.</p>







4.	 <p><b>Mr Elias Kipkemei Busienei</b> Member</p>	<p>Mr. Busienei was born in 1973; he holds MBA (Executive)-aviation option Moi University, has wide experience in Flight Operations in Kenya.</p>
5.	 <p><b>Mr Mark Stephenson</b> Member</p>	<p>Mr. Stephenson is the Director Sand storm Company Kenya, which started out making luxury safari tents in 2002. Today it makes East Africa's finest bags and accessories from canvas and leather.</p>
6.	 <p><b>Mr Raphael Letimalo</b> Member</p>	<p>Mr. Letimalo was born in 1957 he holds a Bachelor of Arts degree in Peace Study and Conflict Resolution 1<sup>st</sup> class honors. He was a Member of Parliament 2007-2017 and District Officer 1988-2007.</p>
7.	 <p><b>Ms Amina Mohamed Wario</b> Member</p>	<p>Ms Amina is a community leader on women empowerment, mentoring youth in creating awareness in and after school program, advocating for community membership in education and health care. 2013-2017 Was a nominated member of County Assembly of Nairobi. 2008-2013 Was a nominated councilor Embakasi-Nairobi. 2003-2007- Was chairlady of Embakasi Sub-Branch (KANU). 1989-1997- KANU Chairlady Embakasi ward (Maendeleo Ya Wanawake). 1986-1989- Village representative Kware/Mukuru Kwa Njenga ward.</p>

8.	 <p><b>Mr Simon Atebe</b> Rep PS, State Dept. of Industrialization</p>	<p>Mr Atebe works as Assistant Director Ministry of Industry Trade and Enterprise Development "between" 2013 to 2018. In the year 2018, he became Deputy Director Ministry of Industry Trade and Enterprise Development. He is currently the acting Director at the Directorate of Agro-Industries.</p>
9.	 <p><b>M/s Elizabeth Kamau</b> Member</p>	<p>M/s Elizabeth is a fashion and interior Designer with many years and wide experience in Kenya and East Africa. She is also a business person.</p>
10.	 <p><b>Mr. Stephen Karume</b> Member</p>	<p>Mr. Karume joined KLDC Board on 20<sup>th</sup> Sep 2018. He has a Bachelor Degree in Arts (Majoring in Economics) from Moi University and holds an Executive Masters in Business Administration (Entrepreneurship). He worked as Head of Trade Development at East African Breweries Ltd from 2001 to 2014. 1993 -2001 he worked for Dawa Pharmaceuticals Ltd. 1991-1993 he worked for Car &amp; General as a sales man covering Nairobi region.</p>
11.	 <p><b>Dr. Issack M. Noor</b> Secretary/Chief Executive Officer</p>	<p>Dr. Noor is 59 years old, he holds a PhD in Live Stock Production Systems, Egerton University, (2013), MSc (Animal Production) University of Nairobi, (2009), BSc (Animal Health) Egerton University (1995) and a Certificate (Animal Health) Ahiti- Nyahururu, (1990). He has over 35 years of public service experience with veterinary department, teaching, research, and administration.</p>




## MANAGEMENT TEAM

	Name/Area of Responsibility	Key Professional/Academic Qualification
1.	 <p><b>Dr. Issack M. Noor</b> Secretary/Chief Executive Officer</p>	Dr. Noor is 59 years old, he holds a PhD in Live Stock Production Systems, Egerton University, (2013), MSc (Animal Production), University of Nairobi, (2009), BSc (Animal Health) Egerton University (1995) and a Certificate (Animal Health) Ahiti-Nyahururu, (1990). He has over 35 years of public service experience with veterinary department, teaching, research and administration.
2.	 <p><b>Mr. Charles M. Ndungu</b> Head of Research, Standards &amp; Policy</p>	Mr. Ndungu is 56 years old and holds a BSc Leather Technology degree (2004), Certificate in Hides and Skins Improvement (1981). He has attended courses in Cluster Management, Leather Finishing, and Business Incubation.
3.	 <p><b>Mr. Joseph Chirchir</b> Head of Marketing &amp; Resource Mobilization</p>	He is 58 yrs old and holds a certificate in leather technology (Hides and Skins Improvement Course). He also holds a diploma in Environmental Resource Management-Kenya polytechnic University College. He has 32 years' experience in leather related matters in the Civil service.
4.	 <p><b>Mr. Onyango G.J</b> Head of Monitoring &amp; Evaluation</p>	He is aged 55 years and holds a Diploma in Leather Technology. He has attended courses in Integrity Workshop, Strategic Planning Workshop, ISO Certification, Disability Mainstreaming, and Gender Mainstreaming. He was project co-coordinator for UNOPS.

5.		<p>He is 55 years old; he holds BBA in Human Resource and also has a Diploma in Personnel Management. He has attended courses in Integrity Workshop, HIV/AIDS Sensitization and Voluntary Testing, ISO Certification, Disability Mainstreaming and Gender Mainstreaming.</p>
	<p><b>Mr. Patrick Nyadimo</b> <b>Head of Human Resource</b></p>	
6.		<p><b>Ms. Joyce</b> is 36 years old. She holds a Postgraduate Degree MSc Computer Science, BSc IT and Diploma IT. She has attended induction Course for IT, ESP Facilitation, ISO Management, Integrity Workshop, Planning, Developing Corporate Website and Database System Design and Management.</p>
	<p><b>Ms. Joyce Wachira</b> <b>Head of ICT</b></p>	
7.		<p>He is aged 34 years. Holds MBA (Finance) from University of Nairobi, B.com (Accounts) from Kenyatta University, CPAK, Certified Information Systems Auditor (CISA) and well trained in oracle applications specifically the IIFMIS and has worked with five ministries and audited several Foreign Missions. He's a member of 3 bodies, ICPAK, Information Systems and Control Association (ISACA) and Institute of Internal Auditors (IIA).</p>
	<p><b>CPA Edwin Ombaka</b> <b>Senior Internal Auditor</b></p>	
8.		<p>She is 52 years old and a member of Institute of Certified Public Accountants (ICPAK). She holds a Bachelor of Commerce (Finance Option). She attended short courses in Senior Management at Kenya School of Government, Preparation of Financial statements (ESAMI, Uganda), Financial Management and Good Governance (Denmark) Harmonized Cash Transfer (HACT), Integrated Financial Management Information System (IFMIS), Computer Proficiency, which includes computerized accounting packages. Above all she has a wealth of experience having worked for over 20 years in the civil service.</p>
	<p><b>CPA Gladys N. Mwangi</b> <b>Head of Accounts unit</b></p>	



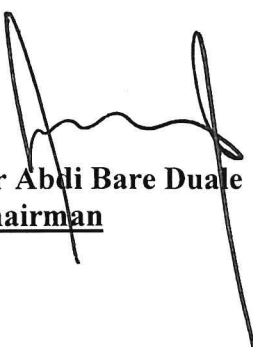
9.	 <b>Ms. Clita Waswa</b> <b>In-charge of Procurement</b>	She is 31 years old and holds a Diploma in Purchasing and Supplies Management from Mount Kenya University; in addition, she has passed proficiency examination for Clerical Officers-Supplies option.
----	--	---

## **CHAIRMAN'S STATEMENT**

The leather industry is a priority sector for industrialization under the 'Big Four agenda. This puts Kenya Leather Development Council (KLDC) in a position to drive the sector growth. This shift is of utmost significance as it demonstrates the immense focus of the Government towards promotion of the manufacturing economy as a critical sector in the creation of jobs and improvement of livelihood for Kenyan People. The leather sector presents opportunity for the creation of jobs and subsequent increase in Kenya's Gross Domestic Product (GDP) through increased value addition efforts in the leather value chain.

The Board and the management are committed to ensuring the Council plays its role as a regulator and drive Kenya towards becoming a leather manufacturing hub. This will enable the country to achieve its goals of creating jobs, improving the national economy and addressing its balance of trade aimed towards a better quality of life for Kenyans.

The Council appreciates the fact that for the sector to grow and realize its full potential, this cannot be done by a single agency and therefore, appreciates the support given by the Parent Ministry, The National Treasury, other Government departments and agencies.



**Mr Abdi Bare Duale**  
**Chairman**

## **REPORT OF THE CHIEF EXECUTIVE OFFICER**

The Kenya Leather Development Council aspires to fulfill its mandate of promoting, regulating, harmonizing and coordinating activities in the leather sector. This is in spite of the numerous challenges during the just ended year. The Board and the management remain focused on putting the right measures that, in the long run will enable the council and the Kenyan Leather sector to cement its stewardship in both the regional and international leather industry.

The Kenya Leather sector with an anticipated potential of creating 35,000 jobs annually, is a major priority of the Government of Kenya.

The two critical aspects that make Kenya's leather sector a huge magnet for investment are,

- a) The Long value chain of the sector which starts from animal production and husbandry practices all through to the production of finished footwear, leather and leather crafts.
- b) The immense market potential that the sector portends especially in the area of finished leather, footwear and leather goods with industry statistics indicating that the country produces 10 million pairs of shoes per annum thus operating at a deficit in consideration of the fact that Kenya's population currently stands at 44 Million people with a shoe capita of about 0.85. Besides this, due to Kenya's engagement with the wider Eastern and Southern Africa, the country enjoys larger markets of the COMESA region which in itself portends a demand of 100 million shoes.

During the year under review, the Council received Government Recurrent grants of **Ksh. 53,635,801** and Development grants of **Ksh. 948,172,500**. The Training and Production Centre for Shoes Industry generated revenue of **Ksh. 1,060,903**



**Dr. Issack Mohamed Noor**  
**Chief Executive Officer**



## **CORPORATE GOVERNANCE STATEMENT**

During the period under review, the Board held 5 full Board meetings and 12 Committee meetings with an attendance of 98.2%. The Cabinet Secretary appoints the Board members; their dates of appointment vary which means there is always continuity and institutional memory. The role and functions of the Board are clearly stated in the Mwongozo (The code of Governance for State Corporations) which states (among other roles and functions) that the Board should exercise their role collectively and not individually, set and oversee the overall strategy and approve significant policies of the organization, hire the CEO and directors, on such terms and conditions of service as may be approved by the relevant government organ(s) and approve the appointment of Senior Management Staff.

In line with PFM Act of 2012, Sec. 68, KLDC accounting officer is accountable to the National Assembly for ensuring that the public resources are used in a way that is; lawful and authorised; and effective, efficient, economical and transparent.

In order to enhance Board Capacity, new members were inducted and the audit committee trained. The Board was also trained on Mwongozo code of conduct.

## **MANAGEMENT DISCUSSIONS AND ANALYSIS**

### **Section A: The Council's operational and financial performance**

During the year under review, the Council received Government Recurrent grants of **Ksh. 53,635,801** and Development grants of **Ksh. 948,172,500**. The Training and Production Centre for Shoes Industry generated a revenue of **Ksh. 1,060,903**.

### **Section B: Council's compliance with statutory requirements**

The Council fully complied and enforced statutory requirements during the contract period. This Includes;

1. Complied with public procurement regulations and rules
2. Prepared a procurement plan and submitted to PPOA by 31<sup>st</sup> August 2016.
3. Submitted quarterly procurement implementation reports to the Authority.
4. Ensured remittance of dues to PAYE, NSSF, and NHIF for employees of the Council.
5. The Council Submitted environmental sustainability audit report on compliance with EMCA-1999 by 30<sup>th</sup> September 2016.
6. Submitted annual work plan to the parent ministry.
7. Implemented Government policy on affirmative action for persons with Disability.

KLDC Board commits to implement internal control mechanisms in line with the Ethics and Anti-Corruption Commission Act No. 22 of 2011 and leadership and integrity Act of 2012

### **Section C: Key projects and investment decisions the Council is planning/implementing**

#### **1. Kenya Leather Park**

The Ministry of Industry, Trade and Cooperatives, through the Kenya Leather Development Council (KLDC), in partnership with the Export Processing Zones Authority (EPZA), is developing Kenya's first Leather Park (KLP) at Kinanie, Machakos County, to boost production. The KLP is set up on a 500-acre plot and will consist of various industries and services to promote the growth of the leather sector in the country. The Government funds the Leather Park. Consequently, reduction of the budget allocated for the project has greatly affected long term planning. Work on the facility is ongoing.

#### **2. Kariokor Common Manufacturing Facility**

The Kariokor market which houses over 200 stalls and over 6000 MSMEs, has been in existence for decades as a hub of manufacturing activities with MSMEs specializing in production of a wide array of footwear and other items made from range of materials including leather. Kariokor shoe cluster is being upgraded by KLDC, construction of a go-down by Nairobi County Government with the aim of transforming the market into a competitive leather products manufacturing hub through the establishment of a Common Manufacturing Facility is

ongoing. The upgrade will result in improving the production in terms of quality and quantity. The MSME cluster upgrading is 100% funded by the Government. The machines for the facility have been procured.

### **3. Upgrading of Training and Production Centre for Shoe Industry (TPCSI)**

TPCSI is a training institute designed to support the development of the leather sub sector through skills development and common manufacturing facility. To achieve the objectives, it should be well equipped in terms of human resource and machinery. The Council has procured modern leather manufacturing equipment and machinery to enhance capacity building and offer common manufacturing facilities to MSMEs. The outcome of this effort is to create employment and improve micro- economic stability for citizens. The upgrade is fully funded by the Government.

### **4. Replication of Kariokor Common Manufacturing Model in the Counties**

KLDC intends to replicate the Kariokor Common Manufacturing model to Nakuru, Malindi, Eldoret, Kisumu, Meru and Murang'a.

## **Section D: Major risks facing the Council**

KLDC may be insufficiently prepared to manage the major risks, which may face the organizations. Some of the major risks facing KLDC are;

- i) Insufficient funding.
- ii) Lack of sufficient human resource.
- iii) The existing regulatory framework (KLDC legal notice) lacks sufficient enforcement backing.
- iv) Lack of National Leather Policy to guide the sub-sector.

KLDC Management is doing everything possible to improve the Council's ability to deal with existing risks/challenges through appropriate risk management processes.

## **Section E: Material arrears in statutory/financial obligations**

During the period under review, the Council has no any material arrears in statutory deductions or any historical pending bill.

## **Section F: The Council's financial probity and serious governance issues**

The Audit Committee of the Board and the Auditor General regularly review the Council's internal control systems to ensure accuracy of financial reports, efficiency and effectiveness of operations and compliance to rules and regulations. In the FY 2018-2019, the Council strictly adhered to the code of ethics especially being honest in all financial matters including those relating to collections and its funding. The oversight bodies have not reported any financial improbity or any serious governance issues.



## **CORPORATE SOCIAL RESPONSIBILITY (CSR)**

During the FY 2018/19, KLDC has been involved in the following Corporate Social Responsibility activities: -

- i) The council has trained 40 MSMEs on cluster transformation, entrepreneurship and product development. The skills learnt has enhanced their capacity to produce quality products and hence increased access to markets.
- ii) The Council facilitated 15 MSMEs to show case their products during the Nairobi International trade fair and hence increased publicity and access to markets.
- iii) The Council has also uploaded products of MSMEs on our website for enhanced visibility.

## **REPORT OF THE BOARD OF THE COUNCIL**

The Board of the Council submits its annual report together with the unaudited financial statements for the year ended June 30, 2019, which shows the state of the Council's affairs.

### **Principal activities**

The Principle mandate of the KLDC is to drive the transformation of the leather value chain in the Country from a raw material/semi-processed export driven sector to a finished leather product manufacturing industry. KLDC is therefore a key driver of the "Big Four" Agenda under the Manufacturing Pillar. The roadmap to this success is embedded on strategic objectives which specifically address the key challenges facing it. The strategic objectives are aligned to the Council's mandate. While the management carries out the day-to-day activities of the Council, the Board of Council is responsible for the policy direction and evaluation of the activities through the various committees and Board approvals.

### **Results**

The results of the Council for the year ended June 30, 2019 are set out on page 1


### **The Council**

The Appointment of the Council is in accordance to Section 4 of The Kenya Leather Development Council Order, 2011. The members of the Board of Council who served during the year are shown from page vi to vii.

### **Auditors**

The Auditor General is responsible for the statutory audit of the Council in accordance with the Section 16(2) of the Kenya Leather Development Council Order, 2011 and Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Council Governing Board of Directors

  
**Dr. Issack M. Noor, PhD**  
**Chief Executive Officer**

Date 30/6/2020

## **STATEMENT OF THE COUNCIL'S RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012 and Section 13, 14, 15, 16, 17 and 18 of The Kenya Leather Development Council Order, 2011, requires the Directors to prepare financial statements in respect of the Council, which gives a true and fair view of the of the Council at the end of the financial year/period and the operating results of the Council for that year/period. The Council is also required to ensure that it keeps proper accounting records, which disclose with reasonable accuracy its financial position. The Board of the Council is also responsible for safeguarding the assets of the Council.

The Directors responsibilities include: -


- (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 Council;
- (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) Safeguarding the assets of the Council;
- (v) Selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

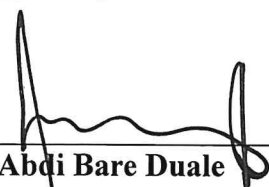
The Directors accepts responsibility for the Council's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public-Sector Accounting Standards (IPSAS), and in the manner required by the Public Finance Management (PFM) Act, 2012 and the State Corporations Act. The Council believes its financial statements give a true and fair view of the state of its transactions during the financial year ended June 30, 2019, and of the financial position as at that date. The Council further confirms the completeness of the accounting records maintained, which have been relied upon in the preparation of the financial statements as well as the adequacy of the systems of internal financial control.

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

### **Approval of the Financial Statements**

The entity's financial statements were approved by the Board on **25<sup>th</sup> July, 2019** and signed on its behalf by:

  
\_\_\_\_\_  
**Dr. Issack M. Noor, PhD**  
**Chief Executive Officer**

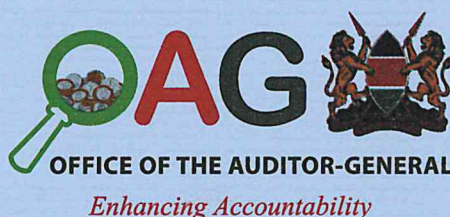
  
\_\_\_\_\_  
**Mr. Abdi Bare Duale**  
**Chairman of the Board**



**REPORT OF THE INDEPENDENT AUDITOR ON THE KENYA LEATHER  
DEVELOPMENT COUNCIL**

# REPUBLIC OF KENYA

Telephone: +254-(20) 3214000  
E-mail: info@oagkenya.go.ke  
Website: www.oagkenya.go.ke



**HEADQUARTERS**  
Anniversary Towers  
Monrovia Street  
P.O. Box 30084-00100  
NAIROBI

## REPORT OF THE AUDITOR-GENERAL ON KENYA LEATHER DEVELOPMENT COUNCIL FOR THE YEAR ENDED 30 JUNE, 2019

---

### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Kenya Leather Development Council set out on pages 1 to 35, 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 effect of the matters 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 Leather Development Council 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 Public Finance Management Act, 2012 and the Kenya Leather Development Council Order, 2011.

#### Basis for Qualified Opinion

##### Property, Plant and Equipment

As disclosed under Note 13 to the financial statements, the statement of financial position reflects property, plant and equipment balance of Kshs.327,443,776. The balance includes land valued at Kshs.44,000,000 and other assorted equipment which the Council acquired from Kenya Industrial Research and Development Institute (KIRDI) at the time of handing over of Training and Production Centre for the Shoe Industry (TPCSI) in Thika. However, the handing over report did not disclose the values of these equipment. In addition, the title deed is yet to be transferred to the Council though efforts have been made by the Management through several correspondences seen by the audit.

Consequently, the accuracy and ownership of land valued at Kshs.44,000,000 as at 30 June, 2019 could not be confirmed.



The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Leather Development Council 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.

### **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**

### **Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Reference No. PSASB/1/12/(44) of 25 June, 2019.

## **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, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

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

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

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



## **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and 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 Council's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to dissolve the Council 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 Council's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to 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 applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's

ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Council to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Council 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**

**12 August, 2021**





**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED 30 JUNE, 2019**

<b>Revenue</b>	<b>Notes</b>	<b>2018-2019</b>	<b>2017-2018</b>
<b>Revenue from non-exchange transactions</b>			<b>Restated</b>
G.o.K Grant -Recurrent	6(a)	53,635,204	60,919,000
G.o.K Grant -Development	6(c)	28,031,833	74,904,628
<b>Total</b>		<b>81,667,037</b>	<b>135,823,628</b>
<b>Revenue from exchange transactions</b>			
Sundry Income: Services fee at TPCSI	7	1,060,903	731,972
Donation: UNOPS Project	8	-	1,219,799
<b>Total Revenue</b>		<b>82,727,940</b>	<b>137,775,399</b>
<b>Expenses</b>			
Goods and Services	9	266,114	75,359
Employee Costs	10	26,046,991	24,657,900
Remuneration of Directors	11	11,407,549	9,920,342
Depreciation and Amortization	12	49,814,810	51,396,572
Repairs and Maintenance	13	1,828,065	844,855
Contracted Services	14	1,392,000	2,587,368
General Expenses	15	40,307,862	35,110,244
UNOPS Project	16	-	1,785,550
<b>Total Expenses</b>		<b>131,063,390</b>	<b>126,378,190</b>
Surplus/(Deficit) before Tax		<b>(48,335,450)</b>	<b>11,397,209</b>
<b>Taxation</b>		<b>-</b>	<b>-</b>
<b>Surplus/(Deficit) for the Period</b>		<b>(48,335,450)</b>	<b>11,397,209</b>

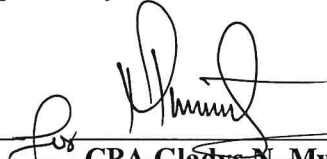
The notes set out on pages 6 to 25 form an integral part of these financial statement

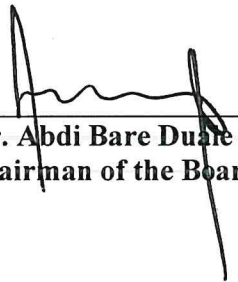
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2019**

	Notes	2018-2019	2017-2018 Restated
<b>ASSET</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	17	1,039,434,836	156,332,105
Receivables from exchange transactions	18	5,825,933	5,623,164
Receivables from non-exchange transactions	19	385,105,119	933,277,619
Inventories	20	5,217,336	4,311,809
<b>Total Current Assets</b>		<b>1,435,583,224</b>	<b>1,099,544,697</b>
<b>Non-Current Assets</b>			
Property, Plant and Equipment	21	327,443,776	280,357,520
Intangible Assets	22	6,610,250	13,220,499
<b>Total Non- Current Assets</b>		<b>334,054,026</b>	<b>293,578,019</b>
<b>Total Assets</b>		<b>1,769,637,250</b>	<b>1,393,122,717</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and Other Payables from exchange transactions	23	464,000	464,000
Refundable Deposit from customers	24	33,272,818	29,272,818
<b>Total</b>		<b>33,736,818</b>	<b>29,736,818</b>
<b>Non-Current Liabilities</b>			
		-	-
<b>Total Liabilities</b>		<b>33,736,818</b>	<b>29,736,818</b>
<b>Net Assets</b>		<b>1,735,900,432</b>	<b>1,363,385,899</b>
<b>RESERVES</b>			
Capital Reserve		1,515,543,025	1,143,574,858
Revenue Reserve		171,475,591	219,811,041
Revaluation Reserve		48,881,816	-
<b>Total Reserves</b>		<b>1,735,900,432</b>	<b>1,363,385,899</b>

The financial statements were approved by the Board of the Council on **25<sup>th</sup> July, 2019** and signed on its behalf by:

  
Dr. Issack M. Noor, PhD  
Chief Executive Officer

  
CPA Gladys N. Mwangi  
Head of Finance  
ICPAK No.11120

  
Mr. Abdi Bare Duale  
Chairman of the Board



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

	Revenue Reserve Restated	Capital Reserve Restated	Revaluation Reserve	Total
<b>As at 1 July 2017</b>	<b>208,413,832</b>	<b>457,806,986</b>	<b>-</b>	<b>666,220,818</b>
Surplus/(deficit) for the period	11,397,209	-	-	11,397,209
Capital grants received during the year	-	137,595,372	-	137,595,372
Grants receivable during the year	-	548,172,500	-	548,172,500
<b>As at 30 June, 2018</b>	<b>219,811,041</b>	<b>1,143,574,858</b>	<b>-</b>	<b>1,363,385,899</b>
<b>As at 1 July 2018</b>	<b>219,811,041</b>	<b>1,143,574,858</b>	<b>-</b>	<b>1,363,385,899</b>
Surplus/(deficit) for the period	(48,335,450)	-	-	(48,335,450)
Transfers to Revaluation reserves	-	-	48,881,816	48,881,816
Capital grants received during the year	-	371,968,167	-	371,968,167
<b>As at 30 June, 2019</b>	<b>171,475,591</b>	<b>1,515,543,025</b>	<b>48,881,816</b>	<b>1,735,900,432</b>

**Note:****a) Revenue Reserve**

This represents the net worth of the Council for the period ended 30<sup>th</sup> June, 2019 and forms the retained earnings.

**b) Capital reserve**

This represents the net worth of the Council for the period ended 30<sup>th</sup> June, 2019 and forms the Capital Reserve.

**c) Revaluation Reserve**

The Council carried out valuation of its motor vehicles in the year 2018/2019. The valued amount is **Kshs. 10,090,000**. The net book value as at the close of FY 2017/2018 is **Kshs. 6,018,184**. However, the Council recognised **Kshs. 4,881,816** as revaluation gains over and above the value before the valuation and hence forms the net asset of the Council. The land at TPCSI had been valued at **Kshs. 44,000,000** in August 2019 and recorded as revaluation gains in financial statement as post balance sheet event.

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2019**

<b>Cash Flows from operating Activities</b>		<b>2018-2019</b>	<b>2017-2018</b>
<b>Receipt</b>			<b>Restated</b>
Government Grants	6(a)	53,635,204	60,919,000
Sundry Income: Services fee at TPCSI	7	1,060,903	731,972
Donation: UNOPS Project	8	-	1,219,799
<b>Total Receipts</b>		<b>54,696,107</b>	<b>62,870,771</b>
Goods and Services	9	266,114	75,359
Repairs and maintenance	13	1,828,065	844,855
Contracted services	14	1,392,000	2,587,368
UNOPS Project	16	-	1,785,550
Employee costs	25	26,124,491	24,702,900
Remuneration of directors	26	12,250,130	9,920,342
General expenses	27	40,496,076	38,439,361
<b>Total Payments</b>		<b>82,356,876</b>	<b>78,355,735</b>
<b>Net Cash Flows from Operating Activities</b>		<b>(27,660,769)</b>	<b>(15,484,964)</b>
<b>Cash Flows from Investing Activities</b>			
Purchase of Property, Plant, Equipment	28	(37,409,000)	(126,526,085)
Purchase of Intangible Assets		-	-
<b>Net Cash Flows Used in Investing Activities</b>		<b>(37,409,000)</b>	<b>(126,526,085)</b>
<b>Cash flows from financing activities</b>			
Capital Grants	6(b)	948,172,500	212,500,000
<b>Net cash flows used in financing activities</b>		<b>948,172,500</b>	<b>212,500,000</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		<b>883,102,731</b>	<b>70,488,951</b>
Cash and Cash Equivalent at 1st July 2018		156,332,105	85,843,154
<b>Cash and Cash Equivalent as at 30th June 2019</b>		<b>1,039,434,836</b>	<b>156,332,105</b>

**Note:**

The Cash flow statement is prepared on the actual receipts and payments, hence excludes any accrued amount. The cash & cash equivalent balances are restated to **Kshs. 156, 332, 105** from **Kshs. 127,061,565** due to omission of retention funds of **Kshs. 29,270.540** in deposit account.



**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
FOR THE YEAR ENDED 30 JUNE 2019**

Vote Head	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	Notes to material variances
	2018-2019	2018-2019	2018-2019	2018-2019	2018-2019	
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs	
Recurrent Capitation	53,635,204	-	53,635,204	53,635,204	-	
Development Capitation	400,000,000	548,172,500	948,172,500	948,172,500	-	
Other Income	1,000,000	-	1,000,000	1,060,903	60,903	(a)
<b>Total income</b>	<b>454,635,204</b>	<b>548,172,500</b>	<b>1,002,807,704</b>	<b>1,002,868,607</b>		
<b>Expenditure</b>						
Employee Costs	28,203,823	(2,000,000)	26,203,823	26,046,991	156,832	
Board Expenses	10,288,000	1,400,000	11,688,000	11,407,549	280,451	
Goods and Services	270,000		270,000	266,114	3,886	
Contracted services	1,400,000		1,400,000	1,392,000	8,000	
General expenses	14,473,381	26,100,000	40,573,381	40,307,862	265,519	
Repairs and Maintenance	-	1,850,000	1,850,000	1,828,065	21,935	
Capital Expenditure	400,000,000	-	400,000,000	41,409,000	358,591,000	(b)
<b>Total Expenditure</b>	<b>454,635,204</b>	<b>27,350,000</b>	<b>481,985,204</b>	<b>122,657,580</b>		
<b>Surplus/(Deficit) for the period</b>	<b>-</b>	<b>520,822,500</b>	<b>520,822,500</b>	<b>880,211,027</b>		

**Explanation of material variance**

- a) **Other Income**-was above the budget as the Council realised more income from service at TPCSI hence favourable variance.
- b) **Kenya Leather Park**- The Variance is because of unrepresented works certificate by project manager for work done.



**NOTES TO THE FINANCIAL STATEMENTS****1. GENERAL INFORMATION**

KLDC is established by and derives its authority and accountability from State Corporations Act (CAP446, Legal Notice No.114 of 9<sup>th</sup> September 2011). The entity is wholly owned by the Government of Kenya and domiciled in Kenya. The entity's principal activity is advice the Minister and Government of Kenya on National strategies and policy with respect to the leather industry.

**2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION – IPSAS 1**

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

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

**3. ADOPTION OF NEW AND REVISED STANDARDS****i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2019**

<b>Standard</b>	<b>Impact</b>
<b>IPSAS 33:</b> First time adoption of Accrual Basis IPSAS	<b>(Effective for annual periods beginning on or January 1, 2017)</b> In January 2015, the IPSASB published IPSAS 33, First-time Adoption of Accrual Basis IPSASs. IPSAS 33 grants transitional exemptions to entities adopting accrual basis IPSASs for the first time, providing a major tool to help entities along their journey to implement IPSASs. It allows first-time adopters three years to recognize specified assets and liabilities. This provision allows sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period. <i>The Council adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first-time adoption of accrual basis does not apply to the Council.</i>
<b>IPSAS 38:</b> Disclosure of Interests in Other Entities	<b>(Effective for annual periods beginning on or January 1, 2017)</b> In January 2015, the IPSASB published IPSAS 38, Disclosure of Interests in Other Entities. IPSAS 38 requires the Council to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with, its interests in controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and the effects of those interests on its financial position, financial performance and cash flows. <i>The Council does not have interests in other entities and therefore the standard does not apply.</i>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019**

<b>Standard</b>	<b>Effective date and impact:</b>
<b>IPSAS 39:</b> Employee Benefits	<p><b>Applicable: 1<sup>st</sup> January 2018</b></p> <p>The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.</p> <p><i>The Council does not have employees in defined pension schemes and therefore the standard does not apply.</i></p>
<b>IPSAS 40: Public Sector Combinations</b>	<p><b>Applicable: 1<sup>st</sup> January 2019:</b></p> <p>The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.</p> <p><i>The Council does not engage in Exchange transactions and therefore the standard does not apply.</i></p>

**iii. Early adoption of standards**

The Council did not early – adopt any new or amended standards in year 2019.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****a) Revenue Recognition****i) Revenue from Non-Exchange Transactions – IPSAS 23****Government and Donor Funding**

The Council recognizes revenues from Government and donors when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Council and the fair value of the asset can be measured reliably. The Council's policy is to apportion operating expenses incurred under Development vote to the statement of Financial Performance and the balance of Development Income for Development Projects is apportioned to statement of changes in net assets under Capital Fund. Recurrent operating expenses and Revenue are fully recognized to the statement of Financial Performance

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### Transfers from other government entities

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

### i) Revenue from Exchange Transactions

The Council recognizes revenue from training and other service charges at Training and Production Centre for Shoe Industry.

### a) Budget information – IPSAS 24

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

### b) Exemption from Corporation Tax – IAS 12

#### Current income tax

The Council is exempted from the payment of corporation tax as stipulated in paragraph 219(3) of the PFM act of 2015. However the Council complies with all other statutory obligations.

#### Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit.

Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable Council and the same taxation authority.

### c) Operating lease – IPSAS 13:44

The Council has a six (6) years lease with CPA Centre whereby we are paying rent on quarterly basis. The rights of ownership have not been conveyed to the Kenya Leather Development Council.

### d) Property, Plant and Equipment – IPSAS 17

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

Motor Vehicles	25%
Computers	30%
Furniture, Fittings and Equipment	12.5%
Plant and Machinery	33 <sup>1/3</sup> %
Building	2%

### Capital work in progress

Work in progress represents properties (CETP) and Perimeter wall construction projects. It is carried at cost, less any recognized impairment loss. Depreciation of these assets commences when the assets are ready for their intended use on the same basis as other buildings.

### e) Intangible assets–IPSAS 31

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The useful life of the intangible assets is finite and intangible assets are depreciated at 25% per annum on straight-line basis. The intangible assets recognized in the Councils books relate to accounting software and leasehold improvements properties.

### **f) Leases – IPSAS 13**

Finance leases are leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Council. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Council also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Council will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

### **g) Research and Development costs**

The Council expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Council 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
- 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

### **h) Financial instruments – IPSAS 29**

#### **i) Financial assets**

##### **Initial recognition and measurement**

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### Loans and receivables

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

### Held-to-maturity

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

### Impairment of financial assets

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

- The debtors of the Council are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

## ii) Financial liabilities

### Initial recognition and measurement

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

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

### Loans and borrowing

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



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### **Amortization – IPSAS 29.65**

Amortized cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The intangible assets are amortized at 25% of the initial cost

### **i) Inventories – IPSAS 12**

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

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

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

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

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

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

### **j) Provisions – IPSAS 19**

Provisions are recognized when the Council has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Council expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

### **Contingent liabilities**

The Council does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. In the year under review there were no contingent liabilities

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### **Contingent assets**

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

### **k) Nature and purpose of reserves**

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

### **l) Changes in accounting policies and estimates – IPSAS 3**

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

### **m) Employee benefits – IPSAS 25**

#### **Retirement benefit plans**

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

### **n) Foreign currency transactions – IPSAS 4**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise. Currently there are no foreign exchange transactions.

### **o) Cash and cash equivalents**

Cash and cash equivalents basically comprise of cash in hand and cash at bank and may include any other item that may be readily converted to cash or represents cash. It is the policy of the Council to disclose the financial institutions where such amounts are held.

### **p) Comparative figures**

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY – IPSAS 1

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

#### a) Estimates and assumptions

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

#### b) Useful lives and residual values

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

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

#### c) Provisions

Provisions on audit fees were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 15 under audit fees expenses. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

#### d) Subsequent events – IPSAS 14

There have been no events subsequent to the financial year-end with a significant impact on the financial statements for the year ended June 30, 2019.

#### e) Related party transactions –IPSAS 20

Parties are related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)****f) Operating Expenses**

The Council's policy is to apportion operating expenses incurred under Development vote to the statement of Financial Performance and the balance of Development Income for Development Projects is apportioned to statement of changes in net assets under Capital Fund. During the financial year under review an amount of Ksh 28,031,833 relating to development income was apportioned to the statement of financial performance and the balance of Ksh 371,968,167 for capital expenditure transferred to Statement of changes in net assets. Recurrent operating expenses and Revenue are fully recognized to the statement of financial performance.

**6. GOVERNMENT GRANTS AND CAPITATION****a) RECURRENT GRANTS**

Qtr	Month	Description	2018-2019 Kshs	2017-2018 Kshs
1st	Sep-18	Quarterly Capitation	13,682,450	16,973,000
2nd	Jan-19	Quarterly Capitation	12,861,503	16,973,000
3rd	Feb-19	Quarterly Capitation	13,682,450	16,973,000
4th	May-19	Quarterly Capitation	13,408,801	10,000,000
<b>Total</b>			<b>53,635,204</b>	<b>60,919,000</b>

**b) G.O.K GRANT-DEVELOPMENT**

Period	Month Received	Description	2018-2019 Kshs	2017-2018 Kshs
1st	Jul-18	Development Grants	548,172,500	50,000,000
2nd	Mar-19	Development Grants	200,000,000	50,000,000
3rd	May-19	Development Grants	200,000,000	112,500,000
<b>Total</b>			<b>948,172,500</b>	<b>212,500,000</b>

**c) G.O.K GRANT – DEVELOPMENT**

Item	Description	2018-2019 Kshs	2017-2018 Kshs
1	Development Grants- Project Administration	28,031,833	74,904,628
<b>Total</b>		<b>28,031,833</b>	<b>74,904,628</b>

**7. SUNDRY INCOME**

Description	2018-2019 Kshs	2017-2018 Kshs
Sundry Income: Services fee at TPCSI	1,060,903	731,972
<b>Sub-Total</b>	<b>1,060,903</b>	<b>731,972</b>



**NOTES TO THE FINANCIAL STATEMENTS (Continued)****8. DONATIONS**

	2018-2019	2017-2018
Description	Kshs	Kshs
Donation: UNOPS Project	-	1,219,799
<b>Sub-Total</b>	<b>-</b>	<b>1,219,799</b>

**9. GOODS AND SERVICES**

	2018-2019	2017-2018
Description	Kshs	Kshs
Electricity	242,143	56,631
Water	23,971	18,728
<b>Total</b>	<b>266,114</b>	<b>75,359</b>

**10. EMPLOYEE COSTS**

	2018-2019	2017-2018
Description	Kshs	Kshs
Basic Salaries	14,065,246	14,210,098
Casual Wages	5,244,739	5,110,829
Income Tax -PAYE	5,846,790	4,413,679
NSSF	651,466	675,444
NHIF	238,750	247,850
<b>Total</b>	<b>26,046,991</b>	<b>24,657,900</b>

**11. REMUNERATION OF DIRECTORS**

	2018-2019	2017-2018
Description	Kshs	Kshs
Chairman's Honoraria	960,000	384,516
Medical Insurance (Board)	1,787,971	1,789,306
Directors emoluments	8,659,578	7,746,520
<b>Total</b>	<b>11,407,549</b>	<b>9,920,342</b>

**12. DEPRECIATION AND AMORTIZATION**

	2018-2019	2017-2018
Description	Kshs	Kshs
Property, plant and equipment	43,204,560	44,753,322
Intangible Asset	6,610,250	6,643,250
<b>Total</b>	<b>49,814,810</b>	<b>51,396,572</b>



**NOTES TO THE FINANCIAL STATEMENTS (Continued)****13. REPAIRS AND MAINTENANCE**

	2018-2019	2017-2018
Description	Kshs	Kshs
Motor Vehicle Maintenance	569,372	814,855
Maintenance of office furniture&Equipment	79,560	25,000
Maintenance of Comps, Software and Internet	341,600	-
Maintenance of plant and Machinery	348,303	-
Refurbishment of Buildings	489,230	-
<b>Total</b>	<b>1,828,065</b>	

**14. CONTRACTED SERVICES**

	2018-2019	2017-2018
Description	Kshs	Kshs
Contracted Guards and Cleaning Services	1,392,000	834,368
Consultancy Services	-	1,753,000
<b>Total</b>	<b>1,392,000</b>	<b>2,587,368</b>

**15. GENERAL EXPENSES**

	2018-2019	2017-2018
Description	Kshs	Kshs
Telephone Expenses	1,378,200	1,020,000
Courier and Postage	23,390	15,885
Daily Subsistence Allowance	7,170,603	9,886,088
Printing and Stationeries	3,387,500	-
Newspaper Subscription	70,465	56,140
Advertisement, Awareness & Publicity	-	62,000
Trade Shows and Exhibitions	1,606,376	1,011,820
Office Rent	10,272,404	10,272,404
Training Expenses	3,052,095	540,790
Hospitality, Supplies and Services	1,480,720	1,696,205
Motor Vehicle Insurance	748,818	818,942
General Office Supplies	5,279,093	7,737,155
Motor Vehicle Fuel	2,301,071	836,445
Subscription & Membership fees	50,757	44,051
Audit Fees	1,392,000	464,000
Purchase of Uniforms	28,450	25,800
Foreign Travel	1,718,196	177,257
Domestic Travel	-	141,370
Internet Connections	260,000	256,910
Purchase of ICT Networks	8,000	-
Purchase of Software	30,000	-
Bank Charges	49,723	46,982
<b>Total</b>	<b>40,307,862</b>	<b>35,110,244</b>



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 16. UNOPS PROJECT

Description	2018-2019 Kshs	2017-2018 Kshs
Capacity Building on consumption & production practices of MSMEs in the Leather Sector	-	1,785,550
<b>Total</b>	<b>-</b>	<b>1,785,550</b>

## 17. CASH AND CASH EQUIVALENTS

Description	2018-2019 Kshs	2017-2018 Kshs
Current Account	1,039,157,284	156,115,947
Cash in Hand	277,552	216,158
<b>Total</b>	<b>1,039,434,836</b>	<b>156,332,105</b>

## a) Current account

## Financial institution

KCB Recurrent Account-	8,079,656	7,452,509
KCB Development Account-	996,017,487	118,660,926
KCB Deposit Account-	35,060,142	30,002,512
<b>Total</b>	<b>1,039,157,284</b>	<b>156,115,947</b>

## 18. RECEIVABLES FROM EXCHANGE TRANSACTIONS

Description	2018-2019 Kshs	2017-2018 Kshs
<b>Prepayments</b>		
Fuel	726,214	636,415
Medical	1,306,526	1,770,471
Motor Vehicle Insurance	355,592	343,177
Advances - staff	77,500	45,000
Internet Connections	792,000	260,000
Office Rent	2,568,101	2,568,101
<b>Total</b>	<b>5,825,933</b>	<b>5,623,164</b>

## 19. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Description	2018-2019 Kshs	2017-2018 Kshs
Kenya Leather Park Advance Payments	385,105,119	385,105,119
GoK Development Grant	-	548,172,500
<b>Total</b>	<b>385,105,119</b>	<b>933,277,619</b>



**NOTES TO THE FINANCIAL STATEMENTS (Continued)****20. INVENTORIES**

<b>Description</b>	<b>2018-2019 Kshs</b>	<b>2017-2018 Kshs</b>
Consumable Stores	5,217,336	4,311,809
<b>Total</b>	<b>5,217,336</b>	<b>4,311,809</b>

**21. PROPERTY, PLANT AND EQUIPMENT**

	<b>Land ®</b>	<b>Motor vehicles ®</b>	<b>Furniture, fittings &amp; Equipments</b>	<b>Computers, Copiers &amp; Printers</b>	<b>Plant &amp; Machinery</b>	<b>Capital Work In Progress</b>	<b>Total</b>
<b>Cost/Valuation</b>		<b>Shs</b>	<b>Shs</b>	<b>Shs</b>	<b>Shs</b>	<b>Shs</b>	<b>Shs</b>
<b>At end of year - June 2017</b>	-	26,284,576	10,155,289	10,016,571	83,038,535	104,410,814	233,905,785
Additions	-	-	240,000	1,450,000	17,390,281	122,940,161	142,020,442
<b>At end of year - June 2018</b>	-	26,284,576	10,395,289	11,466,571	100,428,816	227,350,976	375,926,228
Additions	-	-	40,000	749,000	620,000	40,000,000	41,409,000
Revaluation Gain	44,000,000	4,881,816	-	-	-	-	48,881,816
<b>At end of year - June 2019</b>	<b>44,000,000</b>	<b>31,166,392</b>	<b>10,435,289</b>	<b>12,215,571</b>	<b>101,048,816</b>	<b>267,350,976</b>	<b>466,217,044</b>
<b>Depreciation and impairment</b>							
<b>Depreciation as at 30.06.2017</b>	-	13,695,248	2,223,690	7,244,615	27,651,832	-	50,815,386
Depreciation	-	6,571,144	1,299,411	3,439,971	33,442,796	-	44,753,322
<b>Depreciation as at 30.06.2018</b>	-	20,266,392	3,523,101	10,684,587	61,094,628	-	95,568,708
Depreciation	-	7,791,598	1,304,411	459,295	33,649,256	-	43,204,560
<b>Depreciation as at 30.06.2019</b>	-	<b>28,057,990</b>	<b>4,827,512</b>	<b>11,143,882</b>	<b>94,743,884</b>	-	<b>138,773,268</b>
<b>NET BOOK VALUES</b>							
As at 30th June 2018	-	6,018,184	6,872,188	781,984	39,334,188	227,350,976	280,357,520
<b>As at 30th June 2019</b>	<b>44,000,000</b>	<b>3,108,402</b>	<b>5,607,777</b>	<b>1,071,689</b>	<b>6,304,932</b>	<b>267,350,976</b>	<b>327,443,776</b>

**Note:**

- The previous year's figure for plant & machinery and capital work in progress is adjusted with retention money that was omitted.
- The current year depreciation for computers, copiers and printers is computed on the NBV as at June 2018 and additions for the year.
- The Council carried out valuation of its motor vehicles in the year 2018/2019. The valued amount is **Kshs. 10,090,000**. The net book value as at the close of FY 2017/2018 is **Kshs. 6,018,184**. However, the Council recognised **Kshs. 4,881,816** as revaluation gains over and above the value before the valuation and hence forms the net asset of the Council.
- The land at TPCSI had been revalued at **Kshs. 44,000,000** in August, 2019 and recognised in the financial statement as revaluation gain as post balance sheet event.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 22. INTANGIBLE ASSETS

	Software	Partition	Carpeting	Branding	Total
Cost/Valuation	Kshs	Kshs	Kshs	Kshs	Kshs
At end of year - June 2017	132,000	24,517,699	1,803,850	119,450	26,572,999
Additions	-	-	-	-	-
At end of year - June 2018	132,000	24,517,699	1,803,850	119,450	26,572,999
Additions	-	-	-	-	-
Adjustment: Disposal	(132,000)	-	-	-	(132,000)
At end of year - June 2019	-	24,517,699	1,803,850	119,450	26,440,999
<b>Amortization and impairment</b>					
Amortization and impairment as at 30.06.2017	99,000	6,129,425	450,963	29,863	6,709,250
Amortization and impairment charge for the year	33,000	6,129,425	450,963	29,863	6,643,250
Amortization and impairment as at 30.06.2018	132,000	12,258,849	901,925	59,725	13,352,499
Amortization and impairment charge for the year	-	6,129,425	450,963	29,863	6,610,250
Amortization and impairment on adjustment	(132,000)	-	-	-	(132,000)
Amortization and impairment as at 30.06.2019	-	18,388,274	1,352,888	89,588	19,830,749
<b>NET BOOK VALUES</b>					
As at 30th June 2017	33,000	18,388,274	1,352,888	89,588	19,863,749
As at 30th June 2018	-	12,258,849	901,925	59,725	13,220,499
As at 30th June 2019	-	6,129,425	450,963	29,863	6,610,250

## 23. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

	2018-2019	2017-2018
Description	Kshs	Kshs
Provisions~Audit Fees	464,000	464,000
<b>Total</b>	<b>464,000</b>	<b>464,000</b>

## 24. REFUNDABLE DEPOSIT FROM CUSTOMERS

	2018-2019	2017-2018
Description	Kshs	Kshs
Kenya Leather Park	24,890,587	20,890,587
Plant and Machinery	8,382,231	8,382,231
<b>Total</b>	<b>33,272,818</b>	<b>29,272,818</b>



**NOTES TO THE FINANCIAL STATEMENTS (Continued)****25. EMPLOYEE COSTS (Cashflow)**

<b>Description</b>	<b>2018-2019 Kshs</b>	<b>2017-2018 Kshs</b>
Salaries	14,142,746	14,255,098
Casual Wages	5,244,740	5,110,829
Income Tax -PAYE	5,846,790	4,413,679
NSSF	651,466	675,444
NHIF	238,750	247,850
<b>Total</b>	<b>26,124,491</b>	<b>24,702,900</b>

**Note:** The difference in figure of employee cost under statement of financial performance and cashflow statement is as a result of inclusion of **Ksh. 77,500** paid as advance salary.

**26. REMUNERATION OF DIRECTORS (Cashflow)**

<b>Description</b>	<b>2018-2019 Kshs</b>	<b>2017-2018 Kshs</b>
Chairman's Honoraria	960,000	384,516
Medical Insurance (Board)	2,630,552	1,789,306
Directors emoluments	8,659,578	7,746,520
<b>Total</b>	<b>12,250,130</b>	<b>9,920,342</b>

**Note:** The difference in figure of remuneration of directors under statement of financial performance and cashflow statement is as a result of inclusion **Ksh. 1,306,526** under medical insurance, erroneously captured in the cash book and as unrepresented cheque in bank reconciliation in development account but not yet paid as at the closure of financial year.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****27. GENERAL EXPENSES (Cashflow)**

<b>Description</b>	<b>2018-2019 Kshs</b>	<b>2017-2018 Kshs</b>
Telephone Expenses	1,378,200	1,020,000
Courier and Postage	23,390	15,885
Daily Subsistence Allowance	7,170,603	9,886,088
Printing and Stationeries	3,387,500	-
Newspaper Subscription	70,465	56,140
Advertisement, Awareness & Publicity	-	62,000
Trade Shows and Exhibitions	1,606,376	1,011,820
Office Rent	10,272,404	12,840,505
Training Expenses	3,052,095	540,790
Hospitality, Supplies and Services	1,480,720	1,696,205
Motor Vehicle Insurance	761,233	791,867
General Office Supplies	5,279,093	7,737,155
Motor Vehicle Fuel	2,408,870	2,068,536
Subscription & Membership fees	50,757	44,051
Audit Fees	928,000	-
Purchase of Uniforms	28,450	25,800
Foreign Travel	1,718,196	177,257
Domestic Travel	-	141,370
Internet Connections	792,000	276,910
Purchase of ICT Networks	8,000	-
Purchase of Software	30,000	-
Bank Charges	49,723	46,982
<b>Total</b>	<b>40,496,076</b>	<b>38,439,361</b>

**Note:** The difference in figure of general expenses under statement of financial performance and cashflow statement is as a result of inclusion of motor vehicle insurance (**Kshs 12,415**), motor vehicle fuel (**Kshs. 107,799**) and internet connections (**Kshs. 532,000**) being prepayments and omission of accrued audit fees of (**Kshs. 464,000**).



**NOTES TO THE FINANCIAL STATEMENTS (Continued)****28. PROPERTY, PLANT AND EQUIPMENT (Cashflow)**

	Land ®	Motor vehicles ®	Furniture, fittings & Equipments	Computers, Copiers & Printers	Plant & Machinery	Capital Work In Progress	Total
Cost/Valuation		Shs	Shs	Shs	Shs	Shs	Shs
At end of year - June 2017	-	26,284,576	10,155,289	10,016,571	83,038,535	104,410,814	233,905,785
Additions	-	-	240,000	1,450,000	15,651,133	109,184,952	126,526,085
At end of year - June 2018	-	26,284,576	10,395,289	11,466,571	98,689,668	213,595,766	360,431,870
Additions	-	-	40,000	749,000	620,000	36,000,000	37,409,000
Revaluation Gain	44,000,000	4,881,816	-	-	-	-	48,881,816
At end of year - June 2019	44,000,000	31,166,392	10,435,289	12,215,571	99,309,668	249,595,766	446,722,686
<b>Depreciation and impairment</b>							
Depreciation as at 30.06.2017	-	13,695,248	2,223,690	7,244,615	27,651,832	-	50,815,386
Depreciation	-	6,571,144	1,299,411	3,439,971	32,863,659	-	44,174,186
Depreciation as at 30.06.2018	-	20,266,392	3,523,101	10,684,587	60,515,492	-	94,989,571
Depreciation	-	7,791,598	1,304,411	459,295	33,649,256	-	43,204,560
Depreciation as at 30.06.2019	-	28,057,990	4,827,512	11,143,882	94,164,747	-	138,194,132
<b>NET BOOK VALUES</b>							
As at 30th June 2018	-	6,018,184	6,872,188	781,984	38,174,176	213,595,766	265,442,299
As at 30th June 2019	44,000,000	3,108,402	5,607,777	1,071,689	5,144,921	249,595,766	308,528,555

**29. Financial Risk Management**

The Council's activities expose it to a variety of financial risks including credit and liquidity risks. The Council's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Council does not hedge any risks and has in place policies to ensure that these risks are minimised.

The Council's financial risk management objectives and policies are detailed below:

**i) Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the Board to the Council who have built an appropriate liquidity risk management framework for the management of the Council's short, medium and long-term funding and liquidity management requirements. The Council manages liquidity risk through continuous monitoring of forecasts and actual cash flows. Insufficient budgetary allocations are a major risk as liabilities will not be settled as scheduled.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	Less than 1 month Kshs'000'	Between 1-5 months Kshs'000'	Over 5 months Kshs'000'	Total Kshs'000'
<b>At 30 June 2019</b>				
Trade payables	-	-	-	-
Current portion of borrowings	-	-	-	-
Provisions	-	464,000	-	-
Deferred income	-	-	-	-
Employee benefit obligation	-	-	-	-
<b>Total</b>	<b>-</b>	<b>464,000</b>	<b>-</b>	<b>-</b>
<b>At 30 June 2018</b>				
Trade payables	-	-	-	-
Current portion of borrowings	-	-	-	-
Provisions	-	464,000	-	-
Deferred income	-	-	-	-
Employee benefit obligation	-	-	-	-
<b>Total</b>	<b>-</b>	<b>464,000</b>	<b>-</b>	<b>-</b>

**ii) Market risk**

The board has put in place an internal audit function to assist it in assessing the risk faced by the Council on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Council's income or its purchasing power. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The Council's Internal Audit Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the Council's exposure to market risks or the manner in which it manages and measures the risk.

**iii) Foreign currency risk**

The Council does not engage in foreign currency transactions and therefore no transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****iv) Interest rate risk**

Interest rate risk is the risk that the Council's financial condition may be adversely affected as a result of changes in interest rate levels. Its interest rate risk arises from bank deposits. This exposes the Council to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the Council's deposits.

**Management of interest rate risk**

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

**Fair value of financial assets and liabilities****a) Financial instruments measured at fair value**

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the entity's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The entity considers relevant and observable market prices in its valuations where possible.

The following table shows an analysis of financial and non- financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
<b>At 30 June 2019</b>				
Financial Assets	-	-	-	-
Quoted equity investments	-	-	-	-
Non- financial Assets	-	-	-	-
Investment property	-	-	-	-
Land & Building	-	267,350,976	-	267,350,976
<b>Total</b>	<b>-</b>	<b>267,350,976</b>	<b>-</b>	<b>267,350,976</b>
<b>At 30 June 2018</b>				
Financial Assets	-	-	-	-
Quoted equity investments	-	-	-	-
Non- financial Assets	-	-	-	-
Investment property	-	-	-	-
Land & Building	-	227,350,976	-	227,350,976
<b>Total</b>	<b>-</b>	<b>227,350,976</b>	<b>-</b>	<b>227,350,976</b>



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

There were no transfers between levels 1, 2 and 3 during the year.

**iv) Capital Risk Management**

The objective of the entity's capital risk management is to safeguard the Council's ability to continue as a going concern. The entity capital structure comprises of the following funds:

	2018-2019	2017-2018
Revaluation reserve	3,661,362	-
Revenue Reserve	175,023,082	225,766,930
Capital reserve	1,510,895,177	1,137,573,969
<b>Total funds</b>	<b>1,689,579,621</b>	<b>1,363,340,899</b>
Total borrowings	0	0
Less: cash and bank balances	1,039,434,836	156,115,947
Net debt/(excess cash and cash equivalents)	(1,039,434,836)	(156,115,947)
<b>Gearing</b>	<b>0%</b>	<b>0%</b>



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 30. Related Party Transactions

#### a) Nature of related party relationships

Entities and other parties related to the Council include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

The Council is related to:

- i) The National Government;
- ii) The Parent Ministry: Ministry of Industry, Trade and Cooperatives
- iii) Board Members
- iv) Export Processing Zones Authority (EPZA)
- v) Nairobi City County Government (NCCG)
- vi) Key Management

#### b) Related party transfers

There were no transfers made to/and from the top management staff.

#### c) Due from related parties

There were no dues from the top management or from the council members during the year under review.

#### d) Due to related parties

There were no dues to and from ministries or other departments during the period under review.

### 31. Segment information

The Council operates with County Governments and specifically in the proximity of Nairobi and does not have campuses in other places. Hence IPSAS 18 on segment reporting is not applicable

### 32. Contingent assets and contingent liabilities

At the close of business on June 30<sup>th</sup> 2019, the Council did not have any contingent asset or liability.

### 33. Capital Commitments

At the close of business on June 30<sup>th</sup> 2019, the Council did not have any capital commitments

### 34. Events after the reporting period

There were material non- adjusting events after the reporting period of land valuation of **Kshs. 44 million** and recognised as revaluation gains in financial statement as post balance sheet event. This land is for Training & Production Centre for Shoe Industry (TPCSI) at Thika.

### 35. Ultimate and Holding Council

The Council is a State Corporation/ or a Semi- Autonomous Government Agency under the Ministry of Industry, Trade & Cooperatives. Its ultimate parent is the Government of Kenya.

### 36. The Reporting Currency

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

## APPENDIX I: 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.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Time frame:
1.	<p><b>FY 2017/2018</b></p> <p>The property, Plant and Equipment balance of <b>Ksh.256, 748,032</b> as at 30 June 2018 excludes an undetermined value of land and other assorted equipment which the council acquired from Kenya Industrial Research and Development Institute (KIRDI) at the time of handing over of Training and Production Centre for Shoes Industry (TPCSI) in Thika. Some of these assets were bought at the inception of the Centre in 1994 and earlier years and are operational while others are dysfunctional and obsolete. The handing over report did not disclose the values of these equipment. In addition, the following were observed.</p> <p>i) The centre was initially managed by a board of trustees who transferred it to the then Ministry of Industrialization in 2011. Subsequently, the Ministry handed over the Management of the centre to KIRDI who undertook management of the facility until 18 November 2015 when it was handed over to the Kenya Leather Development Council (KLDC)</p>	<p>It is true that the board of trustees initially managed Training and production Centre for shoes industry (TPCSI) which had representatives from various stakeholders in the leather value chain. The ministry of industry trade and cooperatives took over the Centre and subsequently handed over its management to the Kenya Industrial Research and Development Institute (KIRDI) which was by then the only agency in the Ministry dealing with leather matters. Upon transfer of the Kenya Leather Development Council (KLDC) to the then Ministry of Industrialization and enterprise development, the daily running of TPCSI was delegated to the council during the handing over ceremony of 18<sup>th</sup> November 2015. At the time of handing over the Ministry was in the process of transferring the Land LR No.4953/23/7 from trustees to the Ministry. The process could not be concluded immediately as at the time of swearing an affidavit for the transfer, it was realized two trustees namely Mr. Hussein Awale and Mr. John William Kuria had passed on. The Ministry is currently following up on land ownership matters. The Land on which the institution is situated is still registered under the Board of Trustees and the ownership does not belong to KLDC. In such circumstances, the value could not be stated in our financial statements.</p> <p>The council commits to ensure that the title deed for TPCSI is obtained and transferred to the rightful owner (KLDC) and thereafter carry-out valuation of the Land and Buildings in place.</p> <p>It is true some of the equipment at Training and production Centre for Shoe Industry are operational and</p>	<p>Charles Ndungu Research Standards Policy</p>	<p>The Council has initiated the process of resolving the land issues and currently:</p> <ul style="list-style-type: none"> <li>The land has been valued and its value is Kshs 40 million</li> <li>The Status of the land Title Deed has been established is still in the name of the trustees.</li> <li>The Council has engaged the Kenya Association of Manufacturers as the originating trustee on the transfer process.</li> </ul> <p>The engineers have commenced the evaluation and identified the serviceable and un serviceable machines. The Council has initiated the repair of the serviceable machines and once the process is complete the unserviceable machines will be disposed as provided for by the law.</p>	<p>FY 2019/20</p>

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Time frame:
		others are dysfunctional. The Council depreciates its assets on straight-line basis and although some of the assets are operational, they are fully depreciated. The Council has engaged engineers from numerical Machining complex (NMC) to assist in assessing viability of the machines with a view of either repairing or disposing the obsolete ones.			
2.	KLDC in joint venture with Export Processing Zone Authority (EPZA) each 50% entered into a contract with EPZO Builders Ltd on 17 February 2017 (Contract No. KPL/KLDC/EPZA/01/2016-2017) at a contract sum of Ksh. 2,265,324,226 for the above-mentioned project. As a result, a feasibility study was done by MS Repon Associates which was procured by EPZA and a feasibility report issued in April 2016. Our audit on procurement and management of this contract raised the following concern:	It is true that KLDC made an advance payment of Kshs. 385,105,119 on 12 June 2017 followed by another payment of Kshs. 90,000,000 on 1 February 2018 for payment certificate No.2 dated 20 February 2018. On March 2017, the contractor issued a performance security of kshs.453,064,846 being 20% of the contract sum in favor of KLDC and EPZA as per clause 13.2.1 of the contract agreement that lapsed on 20 March 2018.  iii. It is true that clause 13.2.2 of the contract indicates that, the amount of performance security shall be reduced in proportion to the value of the facility/work executed by and paid to the contractor from time to time and shall become void when the employer has recovered the full amount of the security. Contrary to clause 13.2.2 of the contract, the council paid Kshs.90,000,000 for certificate No.2 instead of recovering from the advance payment whose security has already lapsed. This leaves the Council being exposed to the extent of kshs.385,000,000 held by the contractor without any valid security.	Charles Ndungu Research Standards Policy	Both the contract and the expired security bonds have been extended. The new completion date is 21 <sup>st</sup> September 2020	FY 2019/20
3.	i) The contractor was to commence work within 28 days of awarding of the contract. During the last audit inspection at the site, a comparison of the work plan and the targets revealed that the work is far below the expectations. The value of work certified by the Engineers of the State Department for Public works as at	a) The project Manager, who is the works secretary, certifies interim payments. The Project Manager certified interim payment certificate No.2 on 25 <sup>th</sup> January 2018. The total assessed value for the contractor's application No.2 was Kshs.123,746,991.77. The amount was split into two and KLDC paid Kshs. 90,000,000 of which Kshs. 9,000,000 is being held in our	Charles Ndungu Research Standards Policy	The project implementation is progressing well with effluent reticulation over 70% complete, both 2.5 MLD&10MLD plant layout complete and construction of 10 MLD is ongoing.	FY 2019/20



Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Time frame:
	20 February 2018 was estimated at Ksh 123,746,991 being apportioned as ksh.90,000,000 to KLDC and Ksh.33,746,991 to EPZA.	deposits account (Kenya Commercial bank) being 10% retention.			
4.	(ii) The total budget for this project that was approved by the Board and the Ministry has not been availed for audit review which raises concern as to why the resources were committed before the budgetary approval was given.	Therefore, KLDC relied on advice from the project Manager who is mandated to oversee the construction works at the Kenya Leather Park and initiate payments on behalf of the contractors from the client.	Charles Ndungu Research Standards Policy	The project has multiple components. The current budget is for the CETP.	FY 2019/20
5.	(iii) The Management made an Advance payment of kshs.385, 105,119 on 12 June 2017 followed by another one of Kshs.90, 000,000 on 1 February 2018 for certificate No.2 dated 20 February 2018. On 20 March 2017, the contractor issued a performance security bond of kshs.453, 064,846 being 20% of the contract Sum in favor of KLDC and EPZA as per clause 13.2.1 of the contract agreement that expired on 20 March 2018.		Charles Ndungu Research Standards Policy	The contract was extended and ends on 21 <sup>st</sup> September 2020	FY 2019/20
6.	(iv) Clause 13.2.2 of the contract indicates that, the amount of performance security shall be reduced in proportion to the value of the facility/work executed by and paid to the contractor from time to time and shall become void when the full amount of the security has been recovered by the employer. Contrary to clause 13.2.2 of the contract, the council paid Kshs. 90,000,000 for certificate No.2 instead of recovering from the advance payment whose security has already expired. This leaves the council being exposed to the extent of kshs.385, 000,000 held by the contractor without any valid security.	It is true both KLDC and EPZA claims 50% stake and it is not clear why KLDC paid an advance of Kshs. 385,105,119 instead of Kshs.226, 532, 4345 being half of 20% of the contract and the other half be paid by EPZA. This is because funding for the Kenya Leather park (Development of leather Industrial Park) is channeled through KLDC while EPZA funding is for development of Athi River textile hub		The security bond have been renewed and the recovery of advance payment will commence in payments of future certificates.	FY 2019/20

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Time frame:
7.	(v)Both KLDC and EPZA claim 50 % stake in the project. However, KLDC made a payment of Kshs.385,105,119 over and above the 50% cost of the joint venture which is equivalent of Kshs.226,532,435		Charles Ndungu Research Standards Policy	No further payment has been made and arrangement to be guided by the MOU once signed.	FY 2019/20
8.	(vi) The project has currently stalled because of the uncertainty of the site where it was being constructed. The State Department of Public Works has recommended the project be relocated in another suitable site and works should commence afresh. This would amount to wastage of resources already paid to the contractor and cast doubt as to whether the environmental assessment by NEMA had initially been conducted and implemented.	c) It is true that the project is currently at a halt because of the uncertainty of the site where it was being constructed. The information obtained is that the State Department of Public Works has recommended it should be relocated to another suitable site and works should commence afresh. The project (Common Effluent Treatment) has been halted as the floods, which affected most parts of the country in March 2018, affected the site: the state department for public works has recommended it should be relocated to another suitable site inside the park. This will ensure part of the works already done will still be used as part of the new works. The works will resume once the new site of the CETP is properly mapped. The Strategic Environmental Assessment (SEA) was undertaken by NEMA and was incorporated in the master planning and implemented.	Charles Ndungu Research Standards Policy	The construction works resumed after the rains and resolution of the new site. Work ongoing and expected to be complete on 21 <sup>st</sup> September 2020.	FY 2019/20
9.	<b>Construction of Precast Boundary wall at Kenya Leather Park</b> The Council entered into a contract with Lirona Construction Limited in 2016 for the construction of precast boundary wall at Kenya Leather Park-Kenanie Machakos County at a Contract price of kshs. 108,057,543. The project was planned to commence on 24 <sup>th</sup> March 2016 and anticipated completion date being 2 October 2017.	It is true that parts of the wall, which had fallen down, appeared to be the ones erected on swampy areas this pointing out the fact that either geotechnical survey was not carried out before commencement of works or it was not appropriately carried out.  The site investigations carried out during construction did not indicate that parts of the site where the wall collapsed were swampy. The report and design from the structural Engineer only indicated an area with deep black cotton soils to the depth of 4M. The design executed was for stabilizing the fence through soil replacement. The wet conditions on the site are attributed to the slippage of the effluent water from the neighboring oxidation ponds that are for the EPZA treatment works.	Charles Ndungu Research Standards Policy	Due to the flood damages and with the advice of the Project Manager the Contractor has repaired the affected sections with a design that allows free flow of water to avoid future destruction. The repair was undertaken through the making good clause at no extra cost.	FY 2019/20



Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Time frame:
10.	The total payment to the contractor as at 30 June 2018 amounted to Kshs. 94,958,801 and the retention money of Ksh 11,890,587 held in a deposit account. Physical inspection conducted on the project revealed that there were no construction activities since part of the wall had collapsed as a result of floods experienced in early 2018. A section of the perimeter wall which had collapsed appeared to be the one erected on swampy areas, pointing to a possibility that geotechnical survey may not have been carried out before commencement of works.	The site was flooded due to excessive rains across the country, causing some section of the wall to collapse.	Charles Ndungu Research Standards Policy	The wall has been repaired using a design and material that secures the park but allows water to flow in order to avoid future destruction.	FY 2019/20
11.	Unless the project is completed, the Council is likely not to realize its planned objective of safeguarding the Kenya Leather Park Land.	3. KLDC Commits to ensure that by the time the project Manager hands over the project all the items that the contractor has not performed correctly and defective works are rectified.	Charles Ndungu Research Standards Policy	The project has been completed and the park secured.	FY 2019/20
12.	<b>Management of contracts</b> As previously reported, the Council entered into a contract with Local Company in 2015/2016 for the supply, delivery, installation and training of footwear and leather goods manufacturing equipment at a total cost of Kshs. 83,038,539. Although the management had indicated that there was a concept paper as well as a memorandum of Understanding (MOU) on that project, no evidence was availed for audit review on the number, nature of machines and location where they were to be installed. The amount has been fully paid less retention monies.	It is true that the Council entered into a contract with a local company for the supply, delivery, installation and training of footwear and leather goods manufacturing equipment at a total cost of Kshs. 83,038,539. Although the management has indicated that there was a concept paper as well as a memorandum of Understanding (MOU) on that project, no evidence was availed for audit review on the number, nature of machines and location where they were to be installed. The amount has been fully paid less retention monies.	Charles Ndungu Research Standards Policy	The machines in TPCSI has been segregated into Kariokor and TPCSI. The Kariokor ones have been stored in secure Containers and installation of the TPCSI is ongoing.	FY 2019/20
		i) The tender for supply of footwear & leather goods manufacturing machines/equipment, installation and training was evaluated on 18 <sup>th</sup> to 21 <sup>st</sup> January 2016. During the tender evaluation the technical specifications /requirements for the machines /equipment were well stated. The bidders were evaluated on their compliance			



Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Time frame:
		status for each and every equipment stated in the bid documents. Also, the team from Office of the Auditor-General visited the Training and Production Centre for Shoe Industry whereby they established the location of the equipment /machinery			
13.	During the Financial year 2016/2017, the Council made a further payment of kshs. 59,787,745 to the supplier before the equipment were installed, commissioned and training of users contrary to the terms in the signed contract.	It is true that the Council made payment of Kshs.15,651,133 to a different local company earlier engaged (in 2015/2016) at a contract price of Kshs. 17,390,148.00 for supply, delivery, installation and training of footwear and leather goods manufacturing equipment/machines, this thereby escalating the total cost of the said equipment to Kshs. 100,428,684. This was made even before the earlier ones that were delivered by a different firm were installed, commissioned and users trained on how to use them. These additional machines were similarly delivered at Training and Production Centre for Shoes Industry in Thika.	Charles Ndungu Research Standards Policy	The Council is working with the Nairobi County Government on finalization of agreement to hand over the Kariokor facility so as the installation can be done. The building is being finished.	FY 2019/20
14.	In addition, during the year 2015/2016, the Council engaged another local company at a contract price of Kshs. 17,390,148 for supply, delivery, installation and training of footwear and leather goods manufacturing equipment/machines, resulting into a total cost of the said equipment of kshs. 100,428,687. During the year under review, the council made a further payment of ksh, 15,651,133 to the latter local company even before the equipment procured from the first local company were delivered, installed,	1. Minutes for the 1 <sup>st</sup> Kenya Leather Development Council Tender committee meeting No. KLDC/TC/1/2015-2016 held on 26 <sup>th</sup> January 2016 at the Council's Board noted that three firms qualified in the technical evaluation stage as indicated in the summary of evaluation report. Bidder No.2 was the only firm that attached experimental training manual, which was mandatory during submission of the specifications and brochures. The Committee further noted that the same bidder No. 2 did not provide the correct brochures and specifications for items No. 8, 9,10,12 and 37 and hence the same were omitted from the list for goods to be procured, therefore they were to be tendered a fresh.	Charles Ndungu Research Standards Policy	Installation of machines for TPCSI is ongoing and for Kariokor will commence once the Facility (building) is handed over to the Council.	FY 2019/20

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Time frame:
	<p>commissioned and users trained on how to operate. Though all the machines were eventually delivered and the council paid a total of kshs.92,046,586 out of Kshs. 100,428,687, this equipment have been stored at the council premises for more than two years without being installed, hence raising concern of the equipment going to waste.</p> <p>Consequently, value for money in respect of the two local companies with a paid sum kshs.92, 046, 586 could not be confirmed.</p>	<p>In respect of the above, KLDC advertised to retender the machines/equipment that did not meet the mandatory specifications as recommended by the Tender Committee on 20<sup>th</sup> May, 2016. The tender evaluation committee recommended bidder No.1, M/S Chunir Holdings to be awarded the contract at their quoted price of Kshs. 17, 390,148.00 being the lowest bidder</p>			
15.	<p><b>Other Matters</b></p> <p><b>1. Staff Shortage</b></p> <p>The Council has been relying on staff members deployed from the parent ministry with the exception of the Chief Executive Officer. Although the Board has put a strong justification to the parent Ministry to enable it employ its own staff, nothing appears to have been achieved during the year under review. Consequently, the council does not have full control of staff members, a situation that has hampered the service delivery and execution of its mandate.</p>	<p>It is true that the Council has been relying on staff members deployed from the Parent Ministry to run its operations due to inadequate funding for recruitment and absence of other necessary approvals for recruitment. The staff terms and conditions are contained in the Council's Human Resource policy manual and career guidelines from SCAC. The staff establishment too were done by SCAC but all are yet to be implemented.</p>	<p>CEO/ National Treasury/The Presidency</p>	<p>The 41 approved key critical personnel have been recruited</p>	<p>FY 2019/20</p>

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Time frame:
16.	<p><b>2. Memorandum of Understanding (MOU)</b></p> <p>The Council entered into a Memorandum of Understanding (MOU) with the Export Processing Zones Authority (EPZA) on 8 December 2015 for the establishment of a leather industrial park in Machakos County. The MOU provided that the park was to be built on a portion of plot LR No.23961 measuring 301.1ha belonging to EPZA located at Kinanie. However, the actual acreage of the land to be alienated for the purpose was not indicated and the MOU did not outline the specific roles to be performed by each party and the agreed time frame. The manner in which the park was to be managed and the revenues that are expected to be generated therefrom and how they would be shared were not defined. In addition, it was not clear which of the two institutions was to incorporate in its books of account the operations and the ownership of the industrial park.</p>	<p>It is true the Council entered into Memorandum of Understanding (MOU) with Export Processing Zones Authority (EPZA) on 8<sup>th</sup> December 20115 for establishment of leather Industrial Park in Machakos County. The MOU provided that the park was built on a portion of plot LR No. 23961 measuring 301.1 ha belonging to EPZA located at Kinanie. The State Department for Industrialization is in the process of holding joint meetings with Kenya Leather Development Council, Export Processing Zone Authority and Kenya Leather Industrial Park –Project Manager to chat the forward.</p>	<p>EPZA/KLDC/State Department for Industry</p>	<p>Not Resolved</p>	<p>FY 2019/20</p>



**Dr. Issack M. Noor, PhD**  
Chief Executive Officer

Date: 30/6/2020



**APPENDIX II: PROJECTS IMPLEMENTED BY THE COUNCIL**

The projects which the Council undertook during the year under review were fully funded by the Government of Kenya, through the Ministry of Industry, Trade and Cooperatives.

**I) PROJECT DETAILS**

S/No.	Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required (yes/no)	Consolidated in these financial statements (yes/no)	Comment
					Kshs 'Million'			
1	Kenya Leather Park	1	GoK	4 years	18,460	No	yes	Master plan survey and internal clearing complete. Fencing is 90% per cent complete. Upgrading of Internal roads is ongoing. Effluent treatment plan construction tender awarded and site handed over to the contractor
2	Kariokor Leather Cluster	2	GoK		None	No		

**II) STATUS OF PROJECTS COMPLETIONS**

S/No.	Project title	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources	Comment
		Kshs 'Million'	Kshs 'Million'	Kshs 'Million'	Kshs 'Million'	Kshs 'Million'		
1	Kenya Leather Park	18,460	243.129	19%	739.623	184.906	GoK	
2	Kariokor Leather Cluster				3.138	0.784	GoK	
	<b>Total</b>	<b>18,460</b>	<b>243.129</b>	<b>-</b>	<b>742.761</b>	<b>185.690</b>		

### APPENDIX III: INTER-ENTITY TRANSFERS

The transfers which the Council received during the year under review were all from the National Treasury, through the Ministry of Industry, Trade and Cooperatives.

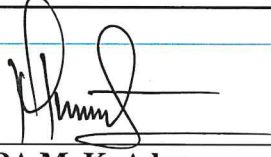
Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income	Amount deferred	Amount recognised in capital fund.	Total grant income during the year	Actual Audited Prior Year
				<b>FY 2018/2019</b>	<b>FY 2017/2018</b>
	<b>Kshs.</b>	<b>Kshs.</b>	<b>Kshs.</b>	<b>Kshs.</b>	<b>Kshs.</b>
State Department of Industrialization	81,667,037	-	920,140,667	1,001,807,704	273,419,000
<b>Total</b>	<b>81,667,037</b>	<b>-</b>	<b>920,140,667</b>	<b>1,001,807,704</b>	<b>273,419,000</b>

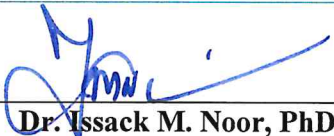
**APPENDIX IV: JOURNAL ENTRIES FOR PRIOR YEARS ADJUSTMENT**

Particulars	Debit	Credit
<b>Statement of Financial Performance</b>		
Provision-Audit fees		464,000
Revenue Reserve	464,000	
<b>Being omission of provisions for audit fee for FY 2016/17</b>		
Revenue reserve	5,003,429	
Accumulated Depreciation		5,003,429
<b>Being errors on depreciation as a result of omission of retention money in PPE schedule under Plant &amp; Machinery column in FY 2016/17 &amp; 2017/18</b>		
<b>Statement of Financial Position</b>		
Cash & Bank Account	29,270,540	
Revenue Reserve		29,270,540
<b>Being understatement of cash and cash equivalent as at the closure of financial year- this represent the deposit account balances</b>		
Capital Receivable/ Contractor Prepayment Account	385,105,119	
Bank Account		385,105,119
<b>Being omission of transaction of capital repayment to contractor in statement of financial position in FY 2017/18</b>		
Property, Plant & Equipment	28,612,918	
Retention fund		28,612,918
<b>Being omission of retention money under capital work in progress in PPE schedule for FY 2016/17 &amp; FY 2017/18</b>		
Intangible Assets	33,000	
Capital Reserve		33,000
<b>Being erroneous understatement of Intangible Assets in FY 2017/18</b>		
Provision-Audit fees		464,000
Revenue Reserve	464,000	
<b>Being omission of provisions for audit fees for FY 2017/2018</b>		
Property, Plant & Equipment	1,872,312	
Retention fund		1,872,312
<b>Being Erroneous understatement of retention fund balance in FY 2017/18 &amp; 2016/17 in relation to plant &amp; machinery</b>		



Capital Receivable	548,172,500	
Capital Reserve		548,172,500
<b>Being understatement of capital reserve due to omission of some capital fund that were not yet received for capital expenditures as at the closure of FY 2017/18</b>		
<b>Statement of changes in Net Assets</b>		
Revenue Reserve	11,248,219	
Revaluation Reserve		11,248,219
<b>Being correction of revaluation loss erroneously charged to Revenue Reserve in FY 2016/17</b>		
Capital Reserve	596,304	
Revaluation Reserve		596,304
<b>Being correction of revaluation loss erroneously charged to Capital Reserve in FY 2016/17</b>		
<b>Cash flow statement</b>		
Salary Account	45,000	
Cash & Bank Account		45,000
<b>Being addition of salary advance paid in FY 2017/18 omitted</b>		
General expenses	3,895,536	
Cash & Bank Account		3,895,536
<b>Being addition of rent (2,568,101), fuel (1,232,091), medical insurance (75,344) &amp; internet (20,000) prepayments omitted in FY 2017/18</b>		
Cash & Bank Account	5,578,164	
Prepayment Account		5,578,164
<b>Being correction of prepayments charged to cash flow statement whereas it was already reported under the respective expenditures; Medical (1,770,471), Motor Vehicle Insurance (343,177), Internet Connections (260,000), Office rent (2,568,101)</b>		

  
 CPA M. K. Adan  
 Manager, Finance & Accounts

  
 Dr. Issack M. Noor, PhD  
 Chief Executive Officer

