

# **REPORT OF THE AUDITOR-GENERAL ON KENYA LEATHER DEVELOPMENT COUNCIL FOR THE YEAR ENDED 30 JUNE 2017**

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## **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 28, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, 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 Kenya Leather Development Council as at 30 June 2017, 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 Kenya Leather Development Council Order, 2011.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion section of my report, based on the procedures performed, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

### **Basis for Qualified Opinion**

#### **1. Property, Plant and Equipment**

As reported in the previous year, the property, plant and equipment balance of Kshs.184,502,012 as at 30 June 2017 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 Development Centre for the Shoe 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;

- 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).
- ii) According to the handing over report, the Thika Centre sits on 0.1096 hectare (0.271 acre) of land, LR No. 4953/23/7 and registered in the land title registry as I.R 40506/4 as per Trustee Deed made on 25 February, 1994 and certificate of title issued on 25

April 1996. The whereabouts of the title could, however not be established and therefore ownership of the land could not be confirmed and, further, no valuation report for the parcel of land was availed for audit review.

## **2. Management of a Contract**

As reported in 2015/2016, the Council entered into a contract with 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. Further, a deposit equivalent to 20% (or Kshs.16,607,708) of the contract value was paid to the supplier in 2015/2016.

During the financial year under review, the Council paid a further 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. Information available indicates that the machines were eventually delivered and kept at the Council premises but have not been installed, tested and put to the intended purposes.

Consequently, the propriety and validity of the payment amounting to Kshs.76,395,453.00 could not be confirmed.

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

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgement, were of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, there were no Key Audit Matters to report in the year under review.

### **Other Matter**

#### **1. Staff Shortage**

As was reported in the previous year, 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. It is however noted that the National Treasury has seconded an internal auditor as well as two accountants to enhance accountability in the Council's operations.

## **2. Memorandum of Understanding (MOU)**

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 301.1 ha 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 those would be shared were not defined. In addition, it was not clear which of the two institutions was to incorporate in its books the operations and the ownership of the industrial park.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Council to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Institute to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

**Nairobi**

**09 August 2018**