REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA LEATHER DEVELOPMENT COUNCIL

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON KENYA LEATHER DEVELOPMENT COUNCIL FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;

B. Report on Lawfulness and Effectiveness in the Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose; and,

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

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 44, which comprise of the statement of financial position as at 30 June, 2025, and the statement of 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 at 30 June, 2025 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 the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Employee Cost

The statement of financial performance for the year under review reflects employee cost amount of Kshs.132,051,797 which includes salaries and wages amount of Kshs.100,276,640. However, computation of salaries and wages paid as per the master roll provided for audit verification reflects an amount of Kshs.100,022,136 resulting to unexplained variance of Kshs.254,504.

In the circumstances, the accuracy and completeness for employee cost amount of Kshs.131,985,452 could not be confirmed.

2. Unsupported Write-off of E-Citizen Receivable

The statement of financial position reflects comparative receivables from exchange transactions totalling Kshs.1,088,975 which includes E-Citizen platform balance of Kshs.874,338 as disclosed in Note 16 to the financial statements. However, the closing balance reflects as Nil. Further, Note 9 to the financial statements reflects Kshs.874,338 for E-citizen receivable which was expensed during the financial year under review. Details on the method used in writing off Kshs.874,338 for the E-citizen receivable was not provided for audit. Similarly, the approval for writing off E-citizen receivable was also not provided for audit.

In the circumstances, the accuracy and completeness of the write-off amount of Kshs.874,338 could not be confirmed.

3. Incomplete Property, Plant and Equipment Net Book Value

The statement of financial position reflects property, plant and equipment net book value of Kshs.2,497,494,768 and as disclosed in Note 19 to the financial statements. However, and as previously reported, the net book value excludes land valued at Kshs.44,000,000 where the Training and Production Centre for Shoe Industry (TPCSI) is in Thika Town, which was acquired by the Council from Kenya Research and Development Institute (KIRDI). Review of the handing over report indicated that TPCSI Campus was located on a 0.1096-hectare (0.271 acre) plot of land, as per the Trustee

Deed made on 25 February,1994 and certificate of title issued on 25 April,1996. However, the ownership documents had not been transferred to the Council as at 30 June, 2025. Further, the land value at Kshs.44,000,000 was removed from property, plant and equipment without authority from the Parent Ministry.

In the circumstances, the accuracy and completeness of the property, plant and equipment net book value totalling Kshs.2,497,494,768 and the ownership by the Council of the land on which TPCSI is located could not be confirmed.

4. Unsupported Rendering of Services Revenue

The statement of financial performance reflects rendering of services amount of Kshs.2,175,100 as disclosed in Note 7 to the financial statements. However, the Council did not maintain separate bank account and cashbook for collection of revenue. Review of records provided revealed that internally generated revenue was deposited into the Commercial Bank deposit account for retention funds.

In the circumstances, the accuracy, completeness and regularity of rendering of services amount of Kshs.2,175,100 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 the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actuals reflects a budgeted final receipt of Kshs.689,533,845 and actual receipt on comparable basis of Kshs.540,392,467 resulting into underfunding of Kshs.149,141,378 or 22% of the budget.

Further, the statement of comparison of budget and actuals reflects finance income final budgeted receipts of Kshs.13,000,000. However, the approved supplementary budget was not provided for audit review.

The statement of comparison of budget and actual includes final budget carryover from previous year and actual comparable of Kshs.146,191,245. However, no supporting documents were provided for audit review.

In the circumstances, the accuracy and completeness of the budgeted amounts could not be confirmed.

My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the effect of the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Unresolved Prior Year Audit Matters

In the audit report of the previous year, several issues were raised under Report on the Financial Statements, Emphasis of Matter, Other Matter, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues or given any explanation for failure to resolve them as at 30 June, 2025 as shown below:-

S/No	Financial Year	Paragraph
i	2023/2024	Irregular Payment of Meal Allowances
ii	2023/2024	Irregular Payment of Sitting Allowances
iii	2023/2024	Lack of Land Ownership Documents
iv	2023/2024	Revaluation of Fully Depreciated Assets.
v	2023/2024	Non-Compliance to a Third Rule on Salary Deductions
vi	2023/2024	Variance between Approved Staff Establishment and In Post
vii	2023/2024	Physical Security and Access to Server Room
viii	2023/2024	Lack of Creditors/Debtors policy

Other Information

Board of Directors is responsible for the Other Information set out on page iii to xlvi which comprise of Key Entity Information and Management, The Board of Directors, Management Team, Chairman's Statement, Report of the Chief Executive Officer, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors, Statement of Directors Responsibilities, Statement of Performance Against Predetermined Objectives). The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the entity's financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Failure to Meet the Requisite Number of Representation of Persons Living with Disability

Review of the Council staff bio data revealed that the Council did not have staff falling under people living with disability. This is contrary to the provision of part B.23(1,2) of the Public Service Human Resource Policies and Procedures Manual, 2016 that requires that at least five (5%) of all appointments shall be for Persons Living with DisabilitiesIn the circumstances, the Council may have failed to deliver on its mandate as required by the guiding laws and policies.

In the circumstances, Management was in breach of the law.

2. Irregular Appointment of the Chairperson of the Board

Review of the financial statement report on the Board of Directors for the Council and personal files of Board Members revealed that the Chairperson of the Board is an expert on aviation matters. This is contrary to the Guidelines of Kenya Leather Development Council Order of 2011 which envisaged a Board Chairman with an education background in leather field and a 5-year experience in the leather industry.

In the circumstances, the Council failure to meet the qualification criteria as detailed in Kenya Leather Development Council Order, 2011 Section 4 (2) (a & b).

3. Weak Legal and Regulatory Framework

The statement of financial performance reflects Kshs.2,175,100 in respect to rendering of service as disclosed in Note 7 to the financial statements. However, the Council recorded nil revenue from licensing and enforcement services due to lack of legal and regulatory frame work. Therefore, in order to achieve the mandate, there was need to transform the Council into Regulatory Authority by providing a supportive legal frame work contrary to Paragraph 5 and 6 of Legal Notice No. 114 dated 9 December, 2011 which requires the Council to raise such funds.

In the circumstances, Management was in breach of the Guidelines.

4. Failure to Carry out Annual Governance Audit

Review of the Council's Board minutes on governance revealed that the organization did not carry out an annual governance audit within the period under review and as such, the Board was in breach of the law. This was contrary to Paragraph 1.13 (1) Mwongozo Guidelines on the Governance Audit which provides that the Board, in consultations with the Oversight Office, should ensure that it subjects the organization to an annual governance audit by a member regulated by the Institute of Certified Public Secretaries of Kenya (ICPSK) and accredited for that purpose.

In the circumstances, Management acted contrary to Mwongozo 1.13 Guidelines by failing to subject the organization to a governance audit as prescribed.

5. Failure to Integrate Climate Change Action Plans

Review of Kenya Leather Development Council's budget, workplan and strategic document revealed that the entity did not factor in climate change policy framework in its strategic alignment and financing of climate related functions. Further, there was no dedicated budget allocation on climate change and a designated unit with adequate staff and financial resources and an appointed senior officer as head of the unit, to coordinate the mainstreaming of the climate change action plan and other climate change statutory functions within the Council. This is contrary to the National Climate Change Act, 2016, which obligates public entities to mainstream climate change measures into their operational and development plans and to allocate adequate resources to address climate resilience and adaptation.

In the circumstances, Management was in breach of the law.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require 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 comply in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

1. Unprocedural Issue of Group Imprest

An audit examination of imprest surrender by Development Council officers revealed group imprest totalling Kshs.1,789,310 issued to officers contrary to Section 68 (1) of the Public Finance Management Act 2012 provides that an accounting officer for a government entity, shall be accountable for ensuring that the resources of the respective entity for which he or she is the accounting officer are used in a way that is— (a) lawful and authorized; and (b) effective, efficient, economical and transparent.

In the circumstances, the effectiveness of controls on imprests could not be confirmed.

2. Understaffed Staff Establishment

Review of the approved staff establishment, master payroll and other documents presented for audit verification in relation to employment cost revealed that the Development Council approved staff establishment had a total approved posts totalling one hundred and twenty-eight (128) staff across all ten (10) grades. Review of current postings per the Departments revealed that the State Corporation has a total of sixty-four (64) employees leading to an understaffing by sixty-four (64) employees.

In the circumstances, the optimal staff levels could not be confirmed.

3. Under Staffed Internal Audit Department

Review of the Council's approved staff establishment revealed that the Internal Audit Department is required to be headed by a Director of Internal Audit or a Deputy Director of Internal Audit, supported by a Principal Internal Auditor and a Senior Internal Auditor. However, it was noted that the Department is understaffed, with only two (2) staff members currently in place. The head of the Internal Audit Department is a Principal Internal Auditor, which is contrary to the approved structure and may affect the Department's capacity to effectively carry out its mandate.

In the circumstances, Management failed to fill key leadership positions in compliance with the approved staff establishment and governance framework.

4. Board Member's Professional Standing and Expertise

Review of Board files provided for audit revealed that the Board Members' personal files did not have any academic and professional certificates as evidence to show that they had sufficient expertise to perform their role as required and that they were in good standing.

In the circumstances, the benefits from achievement of strategic objectives could not be confirmed.

5. Under Constituted Board of Directors

The Board Members present were the legally appointed Board Members and two (2) Board Members representing The National Treasury and Parent Ministry respectively. Further, contrary to the requirements of the Executive order, the Board did not incorporate representative from the Attorney General's Office (State Law Office) and Inspectorate of State Corporations.

In the circumstances, the Council may have failed to realize the Board's objectives due to lack of full representation.

6. Audit Committee Meetings

During the year under review, it was observed that the Audit Committee met only twice within the financial year. This is contrary to the Mwongozo Guidelines which provides that the Members should meet regularly and at least quarterly to enhance effectiveness. Audit committee being a critical Committee to be established by the Board, should be accorded adequate time and effort for meetings.

In the circumstances, this may have resulted to ineffective Audit Committee and ineffective internal audit reports.

7. Succession Planning in the Appointment of Board Members

Review of the Board of Directors list as presented in the financial statements and their appointment letters revealed that all the appointed Board Members was done on the 03 April, 2025 to serve for a term of three (3) years, thus affirming that their terms will end at the same time for all Board Members. This is contrary to the envisaged succession planning principal of staggering the appointments to enhance a phased transaction.

In the circumstances, the Board was in violation of the governing Mwongozo 1.14 guidelines on succession planning.

8. Lack of Stakeholders Communication Policy

During the year under review, it was observed that the stakeholder communication policy was not implemented. This was contrary to Regulation 19 (1) (e) of the Public Finance Management (National Government) Regulation, 2015 which requires the entity to establish and implement a system that provides necessary information to the stakeholders including stakeholder communication policy for the entity in line with Article 35 of the Constitution.

In the circumstances, the effectiveness of controls on communication could not be confirmed.

9. Lack of an ICT Policy and Information Systems

Review of entity information systems at Development Council revealed the following unsatisfactory matters;

i. The Organization lacks an ICT policy which should define IT continuity and disaster recovery plan and a documented retention strategy of data in its operations.
ii. The entity does not have an offsite back up for the data and thus exposing it to risk in case of a disaster. Thus, no disaster recovery measures in place.

iii. The entity's server room is in a dilapidated state clustered with old cartons and electrical appliances which poses risk of fire.
iv. There's no fire extinguisher in or near the server room in case of fire outbreak within the server room.
v. The server room accessibility is not strictly controlled and the security surrounding its access can easily be breached to access the room.

In the circumstances, the effectiveness of the entity information systems might be compromised and the entity's operations are at risk of being affected in case of a disaster.

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 controls, risk Management and overall governance were operating effectively in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of the Management and the 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 controls 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to 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 comply 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 Management 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 governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. 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.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I consider the Council's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/. This description forms part of my auditor's report.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

18 December, 2025