REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT OF THE AUDITOR-GENERAL

ON

KWS - KENYA ROADS BOARD PROJECT

FOR THE YEAR ENDED 30 JUNE, 2020

KENYA WILDLIFE SERVICES

KENYA WILDLIFE SERVICE

Kenya Roads Board Project

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

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

Contents

1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and Registered office/physical location

Kenya Wildlife Service (KWS) was established by the Wildlife Conservation and Management Act, 1989 (now repealed and replaced by Wildlife Conservation and Management Act, 2013). The overall mandate of KWS is to conserve and manage wildlife in Kenya. Registered office is:

KWS Complex – Lang'ata Road
P.O Box 40241 – 00100
Nairobi

1.2 Principal Information

Project Start Date:	**2008**
Project End Date:	**Continuous**
Project Manager:	**Eng. Walter Ochieng Odira**
Project Sponsor:	**The project sponsor is Kenya Roads Board**

1.3 Project overview

The project is under the supervision of Ministry of Transport and Infrastructure. The strategic objectives of the project are to maintain, rehabilitate and develop such categories of roads within the jurisdiction of Kenya Wildlife Service (KWS) as shall be specified in the notice of designation.

1.4 Bankers

Standard Chartered Bank Limited
Lang'ata Branch
P.O. Box 331 – 60500
Nairobi, Kenya

Kenya Commercial Bank Ltd
P.O. Box 20153-00100
Nairobi, Kenya

1.5 Auditors

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

1.6 Roles and Responsibilities

Names	Title	Key qualification	Responsibilities
Eng. Walter Odira	Project Manager	BSC Civil Engineering, Registered Engineer, Global Executive Master in Business Administration.	Responsible for project implementation
Rebecca Kipchumba	Senior project Accountant	CPA (K) , B. Com, MBA - Finance	Responsible for accounting and Financial Reporting of the project

1.7 Funding summary

The project is continuously implemented by Kenya Wildlife Service (KWS) as a roads agency under the KRB Act. As an agency KWS is allocated 1% of roads management levy funds.

1.8 Summary of overall project performance

The Project management reports that:

a) During the year under review management paid for road works for the prior financial year 2018/2019 that spilled over to the current financial year under audit. The work plan for FY2019/2020 was in procurement process and its implementation will be reported in FY 2020/2021.
b) The project achieved value for money on goods and services through sourcing services competitively i.e. tendering
c) Implementation challenges
   i) Adverse Weather patterns experienced in all over the country which started in the month of October 2019 to March 2020, greatly affected the progress of works especially in the wet parks e.g. Ruma, Mt. Kenya, Aberdare, Mt. Kenya and Mt.Elgon.
   ii) Some contractors especially those who were awarded the tenders reserved for special category had challenges of technical and financial capacity hence affecting, implementation of works;
   iii) Inadequate funding i.e. the funding received could not cover the entire classified network forcing KWS to do 40% of her classified network alone. The classified network covered under the funding source is 2400Km out of the total classified network of approximately 6,500Km within Kenya Wildlife Service.
   iv) Low staffing levels; loss of staff through resignations/retirements without replacements.
   v) Inadequate machinery to carry out emergency works and supervision vehicles
   vi) Late procurement due to administrative and systemic delays culminating into low absorption of funds.

d) Way forward

Kenya Wildlife Service Management is of the view that KRB should consider giving more money say 2% or 3% in order, to effectively carry out its mandate. In addition KWS should be allowed to recruit staff to replace those who have left the service.

2. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Director General (Accounting Officer), Kenya Wildlife Service and the Project Manager, are responsible for preparing the project's financial statements, which give the state of affairs of the project as at the end of the accounting period. This responsibility includes: maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the project; designing, implementing and maintaining internal controls relevant to the preparation and presentation of financial statements that are free from material misstatements, whether due to fraud or error; safeguarding the assets of the Project; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Director General and the Project Manager accept responsibility for the project's financial statements, which have been prepared on Cash Basis method of Financial Reporting, using appropriate accounting policies in accordance with the International Public Sector Accounting Standards (IPSAS).

The Director General and Project Manager are of the opinion that the financial statements have been prepared in accordance with the Project financial reporting requirements, and give a fair view of the financial performance for the year ended 30 June 2020. The Director General and the Project Manager further confirm the completeness of the accounting records maintained for the Project which have been relied upon for the preparation of the Financial Statements as well as on the adequacy of the internal control systems.

The Director General and the Project Manager confirm that the Project has complied fully with the terms and conditions of the Financing Covenants in accordance with the applicable Government Regulations, and that the project funds received during the period ended June 30,2020 audit were used for the eligible purposes for which they were intended and were properly accounted.

Approval of the Project Financial Statements

The Project Financial Statements were approved by the Director General for Kenya wildlife service and Project coordinators KRB Project on 30th September 2020 and signed by them.

.....	.....	.....
Director General	Project Coordinator	Project Accountant
Brig.(Rtd)John Waweru, EBS	Walter Ochieng	Rebecca Kipchumba
		ICPAK Member No. 5905

REPUBLIC OF KENYA

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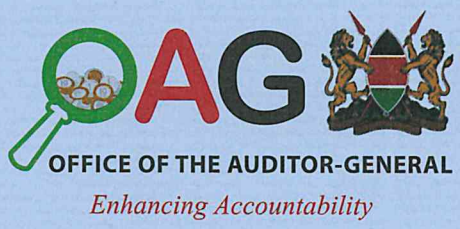

HEADQUARTERS
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KWS - KENYA ROADS BOARD PROJECT FOR THE YEAR ENDED 30 JUNE, 2020 - KENYA WILDLIFE SERVICES

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of KWS - Kenya Roads Board Project set out on pages 1 to 12, which comprise the statement of financial assets and liabilities as at 30 June, 2020, and the statement of receipts and payments, statement of cash flows and statement of comparative 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, the financial statements present fairly, in all material respects, the financial position of the KWS - Kenya Roads Board Project as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and Kenya Roads Board Act, 1999.

Basis of Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the KWS - Kenya Roads Board Project 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 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

1.0 Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects approved budget of Kshs.669,668,404. However, total expenditure for the same period amounted to Kshs.375,839,345. resulting to under expenditure of Kshs.293,829,059. or 44% of the approved budget. Though the Management has explained that the underutilization was occasioned by the fact that contracts for the current year could not be awarded before completion of project awarded in the previous year, the reason for non-completion of previous works was not given.

Based on the approved estimates under expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

2.0 Delay in Completion of Works

The statement of receipts and payments for the year ended 30 June, 2020 reflects expenditure on road works amounting to Kshs.364,678,837. The expenditure relate to contracts awarded in the previous year as reflected in the 2018-2019 annual work plan. However, the planned road works for the current year of Kshs.569,668,404 were not executed as the procurement process had not been completed by the end of the financial year.

It is not clear what strategies the project management has put in place to ensure that road works are completed within the corresponding duration of approved work plans.

3.0 Pending Accounts Payables

Note 9.1 to the financial statements reflects pending accounts payable of Kshs.60,704,280 as at 30 June, 2020. Although management has stated that thee payment certificates had not been received for processing as at the end of the financial year, the projects are at risk of incurring significant interest costs and penalties with the continued delay in making payments.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, 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 of Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the review so as to obtain limited assurance as to 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 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 of 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 those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash 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 governance.

In preparing the financial statements, the Management is responsible for assessing the Project's ability to sustain its services, disclosing, as applicable, matters related to sustainability of service and using the applicable basis of accounting unless Management is aware of the intention to terminate the project or to cease operations.

The 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, the 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 manner.

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project'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 project 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 Project 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 the 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.

CPA Nancy Gathungu,CBS
AUDITOR-GENERAL

Nairobi

08 February, 2022

4. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD ENDED JUNE 30, 2020

	Notes	2020 Kshs	2019 Kshs	Cumulative to date Kshs
RECEIPTS				
Kenya Roads Board	8.3	984,145,834	687,633,979	4,705,298,713
Miscellaneous receipts	8.6	24,946,861	21,001,443	92,935,030
Total Receipts		**1,009,092,695**	**708,635,422**	**4,798,233,743**
PAYMENTS				
Non-current assets	8.10	-	-	24,476,544
Operating costs	8.8	11,160,508	6,793,972	61,281,829
Road works	8.8	364,678,837	418,294,471	3,441,359,381
Other payments/transfers	8.12	-	-	2,465,945
Total Payments		**375,839,345**	**425,088,443**	**3,529,583,699**
Surplus/(Deficit) for the year		**633,253,350**	**283,546,979**	**1,268,650,044**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 30th September 2020 and signed by:

.....	.....	.....
Director General	Project Coordinator	Project Accountant
Brig.(Rtd)John Waweru,EBS	Walter Ochieng	Rebecca Kipchumba
		ICPAK Member No. 5905

5. STATEMENT OF FINANCIAL ASSETS AND LIABILITIES AS AT JUNE 30, 2020

	Notes	2020 Kshs	2019 Kshs
Cash and Cash Equivalent	8.13	1,268,650,044	635,396,694
TOTAL FINACIAL ASSETS		**1,268,650,044**	**635,396,694**
Represented by:			
Cash and cash equivalents brought forward	8.15	635,396,694	351,849,715
Surplus / (deficit) for the year		633,253,350	283,546,979
Net financial position		**1,268,650,044**	**635,396,694**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 30th September 2020 and signed by:

.....	.....	.....
Director General	Project Coordinator	Project Accountant
Date:	Date	Date:
		ICPAK Member No. 5905

6. STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED JUNE 30, 2020

	Notes	2020 Kshs	2019 Kshs
Receipts from operating income			
Kenya Roads Board	8.3	984,145,834	687,633,979
Miscellaneous receipts	8.6	-	-
Payments from operating expenses			
Operating Costs	8.8	(11,160,508)	(6,793,972)
Road Works	8.8	(364,678,837)	(418,294,471)
Other payments/transfers	8.12	-	-
Net cash flow from operating activities		**608,306,489**	**262,545,536**
CASHFLOW FROM INVESTING ACTIVITES			
Acquisition of assets		-	-
Bank interest	8.6	24,946,861	21,001,443
Net cash flow from investing activities		**-**	**-**
NET INCREASE IN CASH AND CASH EQUIVALENT		**633,253,350**	**283,546,979**
Cash and cash equivalent at the beginning of the year	8.13	**635,396,694**	**351,849,715**
Cash and cash equivalent at the end of the year	8.13	**1,268,650,044**	**635,396,694**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 30th September 2020 and signed by:

.....	.....	.....
Director General	Project Coordinator	Project Accountant
Date:	Date:	Date:
		ICPAK Member No. 5905

7. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference Utilizatization	% of
	Kshs	Kshs	Kshs	Kshs	Kshs	
Receipts						
KRB	598,937,500	70,730,904	669,668,404	984,145,834	(314,477,430)	147
Miscellaneous receipts	-	-	-	24,946,861	(24,946,861)	
Total Receipts	**598,937,500**	**70,730,904**	**669,668,404**	**1,009,092,695**	**(339,424,291)**	
Payments						
Operating costs	24,986,732	-	24,986,732	11,160,508	13,826,224	45
Road Works	573,950,768	70,730,904	644,681,672	364,678,837	280,000,835	57
	598,937,500		669,668,404	375,839,345	293,829,059	

The actual expenditure over budget utilisation was 56 %. However, these payments related to FY 2018/2019. Most budget amounts for FY 2019/2020 had not been spent by the close of the financial year. Details of amounts received is explained under note 8.3

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 30th September 2020 and signed by:

.....	.....	.....
Director General	Project Coordinator	Project Accountant
Date:	Date	Date:
		ICPAK Member No. 5905

8. NOTES TO THE FINANCIAL STATEMENTS

The principal accounting policies adopted in the preparation of these financial statements are set out below:

8.1 Basis of Preparation

8.1.1 Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with cash-basis (IPSAS) of financial reporting as prescribed by the PSASB and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for: a) receivables that include imprests and salary advances and b) payables that include deposits and retentions.

The financial statements comply with and conform to the form of presentation prescribed by the Public Sector Accounting Standards Board (PSASB).

The accounting policies adopted have been consistently applied to all the years presented.

8.1.2 Reporting entity

The financial statements are for Kenya Roads Board Project under the National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012.

8.1.3 Reporting currency

The financial statements are presented in Kenya Shillings (Kshs), which is the functional and reporting currency of the project and all values are rounded to the nearest Kenya Shilling.

8.2 Significant Accounting Policies

a) Recognition of receipts

The project recognizes all receipts from the various sources when the event occurs and the related cash has actually been received by the service.
Receipts are funds from Kenya Roads Board (KRB) and interest income. Receipts are recognised when transferred into the project bank account from KRB. Interest income is recognised once credited onto the bank account by the bank.

Donations and grants
There were no donations and grants during the audit period.

Proceeds from borrowing
There were no proceeds from borrowings during the year.

Undrawn external assistance
There was no undrawn external assistance during the year.

- **Other receipts**
  There were no other receipts during the year.

b) Recognition of payments

The project recognises all payments when the event occurs and the related cash has actually been paid out by the project.

- **Compensation to employees**
  The project is implemented by KWS staffs that are on KWS payroll hence there were no employee costs.

- **Use of goods and services**

  There were no payments of goods and services during the year.

- **Interest on borrowing**

  There were no borrowings during the year.

- **Acquisition of fixed assets**
  There were no fixed assets acquired during the year.

c) **In kind donations**
There were no donations in kind during the year

d) **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, cash at bank and short term deposits on call.

e) **Accounts receivables**
These are imprests advanced to authorised public officers which were not surrendered at the close of the year.

f) **Pending bills**

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or past years.

g) **Budget**

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis except for accounts receivable – outstanding imprest) and for the same period as for the financial statements. The budget was approved as required by law and treasury regulations as detailed in the Government of Kenya Budget Printed Estimates.

A high level assessment of the project's actual performance against the comparable budget for the financial year under review has been included in an annex to these financial statements.

h) **Third party payments**
There were no third party payments during the year.

i) **Exchange rate differences**

The accounting records are maintained in the functional currency of the primary economic environment in which the project operates, Kenya Shillings (Kshs).

j) **Comparative figures**

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

k) **Subsequent events**

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended 30 June 2020.

l) There were no prior year errors corrected

8.3 Receipts from Government of Kenya

This represents funds received from Kenya Roads Board (KRB).

	2020 Kshs	2019 Kshs	Cumulative to date Kshs
KRB funds	984,145,834	687,633,979	4,705,298,713
Total	**984,145,834**	**687,633,979**	**4,705,298,713**

Breakdown of above receipts and actual expenditures for the respective years

Financial year	Budget	Actual receipt	Actual expenditure	Variance explanation
2018/2019	**551,250,000**	**285,208,334**	**375,839,345**	**Kshs. 285,208,334 was received in FY 2018/2019**
2019/2020	**669,668,404**	**698,937,500**	**-**	**As below**

There is a one year backlog of maintenance of roads funded by KRB occasioned by delay in procurement.

8.4 Proceeds from foreign Grant

There was no foreign grant received during the year under audit.

8.5 Loan from External Development partners

There was no loan received from external development partners.

8.6 Miscellaneous receipts

	2020 Kshs	2019 Kshs	Cumulative to date Kshs
Interest income	24,946,861	21,001,443	90,243,639
Other receipts	-	-	2,691,721
Total	**24,946,861**	**21,001,443**	**92,935,360**

8.7 Compensation of employees

The project is implemented by KWS staffs that are on KWS payroll hence there were no employee costs.

8.8 Purchase of goods and services

	2020	2019	cum. to date
Road works	364,678,837	418,294,471	**3,441,359,381**
Other operating payments	11,160,508	6,793,972	**61,281,829**

8.9 Social Security benefits

There was no social security benefits paid during the year

8.10–Acquisition of Non-financial assets

	2020	2019	Cumulative
	Kshs	Kshs	Kshs
Purchase of vehicles	-	-	23,279,981
Furniture, equipment and computers	-	-	1,196,563
Total	**-**	**-**	**24,476,544**

8.11 Transfers to other government entities

During the 12 months to June 30, 2020, there was no transfer of funds to reporting government entities.

8.12 Other grants and transfers and payments

During the 12 months to June 30, 2020, there were no other grants and transfers received.

8.13 Cash and bank balances

	2020	2019
	Kshs	Kshs
Field bank balances	70,056	70,056
Field cash in hand	0	0
Headquarters balances	1,268,579,988	635,326,637
Total	**1,268,650,044**	**635,396,693**

Kshs. 70,056 and 1,268,579,988 relates to cash balances held at the KWS Field stations bank account and headquarters bank account respectively. We have provided a detailed analysis in annex 3.

8.14 Outstanding Imprests and Advances

During the 12 months to 30th June 2020, there were no outstanding imprests.

8.15 Fund balance brought forward(Kshs)

	2020	2019
Bank accounts	1,268,650,044	635,396,693
Cash in hand	-	-
	1,268,650,044	635,396,693

8.16 Prior year adjustment

There was no prior year adjustment

9. Other important disclosures

9.1 Pending Accounts payables (construction of civil works) Annex 2A

	Description	Amount	

		2020	2019
1	Road works	60,704,280	51,870,760

9.2 Pending staff payables

There were no staff payables during the year.

9.3 Other Pending payables

There were no other pending payables.

Annex 1A: schedule of pending payables (construction of civil works)

	Road/park	Contract number	company	Amount	Period	Status as at 30.06.2020
1	Main Circuit Lake Nakuru D351	KWS/OT/R&F/ PBC/25/2017 - 2018	Eddy's Engineering Limited	6,387,295	13.11.2018- 13.5.2020	95%
2	Kinondoni – Chogoria Gate Road	KWS/OT/R&F/ PBC/54/2017-2018	D.K Machere Building Contractors	3,811,957	13.11.2018 -13.2.2019	80%
3	Ogongo – Prk Hqs Sidede – Mirogi Road D213	KWS/OT/R&F/ 58/2017-2018	Highstar International limited	2,516,836	13.11.2018 -13.2.2019	75%
4	Kora park hqs-Kambi ya simba	KWS/OT/R&F/ 56/2017 - 2018	South Gate Investment Limited	8,128,791	13.11.2018 -13.2.2019	50%
5	Oltukai - Park Bnd-C102 Rd E397	KWS/OT/R&F/4 6/2018-2019	Satom Enterprises	6,363,180	17.11.2019 - 28.02.2020	90%
6	Kitirwa - Signage 19/Signage 3-42-44-46-13/ Signage 2-43-47	KWS/OT/R&F/4 7/2018-2019	Satom Enterprises	3,204,877	17.11.2019 - 28.02.2020	90%
7	Jn. D389 - Mutubio Gate - ruhuruine-kanjora Rd E580	KWS/OT/R&F/5 0/2018-2019	Afroplan Engineering& General Services Ltd	8,570,196	17.11.2019 - 28.02.2020	85%
8	Routine maintenance of Mitero-Wandare (E592)	KWS/OT/R&F/5 1/2018- 2019	Grey stone construction limited	7,769,132	17.11.2019 - 28.02.2020	95%
9	Routine maintenance of Wiga Jnct-Kamato-Nyatoto road E115	KWS/OT/R&F/5 7/2018- 2019	Regional consmaintor Limited	13,952,016	17.11.2019 - 28.02.2020	75%
				60,704,280		

NB: The above commitments are for FYs 2018/2019 and 2019/2020 contracts. Some contracts are performance based while others are for routine maintenance. The works were completed as per the percentages shown in the status column as at 30.06.2020. Their payment certificates had not been received for processing as at the end of the financial year.

ANNEX 2: DETAILS OF CASH BALANCES AS AT 30 JUNE 2020

Description	Balance brought forward	Amount disbursed during the year	Amount available	Expenditure	Cash and bank balance
	Kshs	Kshs	Kshs	Kshs	Kshs
Amboseli	67,271		67,271	0.00	67,271
Meru N. P	2,785		2,785	0.00	2,785
Field Total	**70,056**		**70,056**	**0.00**	**70,056**
KWS Hqs	635,326,637	1,009,092,695	1,644,419,332	375,839,345	1,268,579,988
Total	**635,396,693**	1,009,092,695	**1,644,489,388**	**375,839,345**	**1,268,650,044**

ANNEX 3: SUMMARRY OF FIXED ASSETS

ASSET TYPE	2020	2019	CUMULATIVE TO DATE
Motor Vehicles	-	-	23,279,981
Furniture & equipment	-	-	1,196,563

REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

MICRO AND SMALL ENTERPRISES AUTHORITY

FOR THE YEAR ENDED 30 JUNE, 2020

MICRO AND SMALL ENTERPRISES AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2020

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

Table of Contents

Page

KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

The Micro and Small Enterprises Authority (MSEA) is a State Corporation established under the Micro and Small Enterprise Act No. 55 of 2012. The Authority is established by law to support development and regulation of Micro and Small Enterprises. The Authority's mandate as indicated by the Micro and Small Enterprise Act No. 55 of 2012 is to Regulate, Promote and Develop the Micro and Small Enterprise Sector.

The Authority is categorized as a Service State owned agency in class 3B. The Mission of the Authority is to facilitate development of a vibrant Micro and Small Enterprise Sector that is capable of sustainable contribution to economic growth and employment creation in the country.

At Cabinet level, the Authority is represented by the Cabinet Secretary for Industrialization, Trade and Enterprise Development, who is responsible for the general policy and strategic direction of the Authority.

(b) Principal Activities

The principal activities or mission of the Authority is to facilitate the Promotion, Development and Regulation of Micro and Small Enterprises Sector. The Vision of the Authority is to be a "Globally Competitive Micro and Small Enterprises Authority".

(c) Key Management

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

- Board of Directors
- Director General / Chief Executive Officer
- Senior Management Team

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2020 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Chief Executive Officer	Henry Rithaa
2.	Director, Corporate Services	Simon Nyamolo
3.	Director, Business Development, Marketing & Trade	Samuel Matonda
4.	Director, IDTI	Edward Karani
5.	Head, Finance and Accounts – Up to 31.12.2019	Joseph Kimwele
5.	Head, Finance and Accounts – From 06.01.2020	Festus Musyoki
6.	Head, Supply Chain Management	Anne Kareithi

(e) **Fiduciary Oversight Arrangements**

The primary organ responsible for fiduciary oversight arrangements is the Board of Directors. Other Government bodies also provide oversight. The Board exercised this oversight through Board Committees. These were the Finance, Human Resource and Administration Committee, Strategy and Business Development Service Committee, Development and Infrastructure Committee, Audit and Risk Management Committee. The key function of the Board is to guide and control the performance and management of the affairs of the Authority.

(f) **Headquarters**

Micro and Small Enterprises Authority
P.O. Box 48823 - 00100
10th Floor, Utalii House
Utalii Lane / Uhuru Highway
Nairobi, Kenya

(g) **Contacts**

Office of the Chief Executive Officer
Telephone: (254)020-3340006/0700-666000
E-mail: msea@mseauthority.go.ke
Website: www.msea.go.ke

(h) **Bankers**

Kenya Commercial Bank, Kipande House Branch | P.O Box 30012-00100, Nairobi
Kenya Commercial Bank, Milimani Branch | P.O Box 69695-00400, Nairobi
National Bank of Kenya, Harambee Avenue Branch | P.O Box 72866-00200, Nairobi

(i) **Independent Auditors**

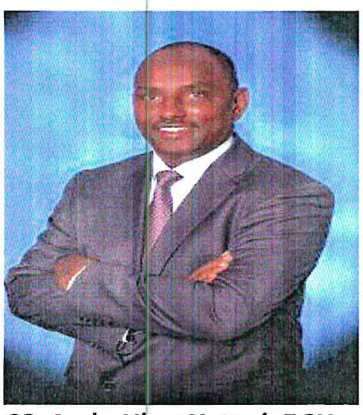
Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

(j) **Principal Legal Adviser**

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

THE BOARD OF DIRECTORS

 **Mr. Charles Waithaka**	**Chairperson of the Board:** Born on 3rd March, 1976, Mr. Charles Waithaka holds a Master of Business Administration from University of Wales, United Kingdom, Bachelor of Arts Degree in Project Management from Kingsbridge University, United States and a Diploma in Information Technology from Kenyatta University. Mr. Waithaka also holds a Bachelor in Business Administration (Entrepreneurship) from Swiss Management Academy. He has over sixteen (16) years' experience in Leadership and Project Management and has worked in simultaneous multi-community mobilization initiatives. Mr. Waithaka has worked with Government, UN bodies, Civil Societies and Private Sector in various capacities. He has served as a Chairman of KEPCO an Apex body of six coalitions of small scale producers in the Country. He has served as an Executive Director of International Consortium of Community Based organizations (ICCOBO), served as a Director in the NGO Coordination Board, has been an Executive Committee Member of NCCK, an Executive Member of Anticorruption Civilian Oversight Committee, served as an Executive Member of Regional Youth Forum (RYF) representing 6 Countries. He was the Organizing Secretary for Empowering of Youth & Enterprise Support (EYES AFRICA) and the founder Member of National Youth Council (NYC) that led to formation of the Ministry of Youth.
 **Mr. Henry M. Rithaa**	**Director General / Chief Executive Officer:** Born in 1977, Mr. Rithaa holds an MBA (Strategic Management), Master of Arts in Regional Integration and Bachelor's degree in Finance. He is a Certified Risk Professional (GARP) and Certified in Regional Integration and Trade. He has worked in Banking, Micro Finance and Corporate Strategy for over 17 years both in private financial institutions and the Public Sector. He is also trained in Advanced Leadership and Management Development Program from Kenya Institute of Management and has done Strategic Leadership Development Program from Kenya School of Government. He is a member of the Kenya Institute of Management (MKIM) and Secretary to the Board of Directors. Henry has served in various Directorship positions in both Private and Public institutions.



CS. Amb. Ukur Yatani, EGH

CS National Treasury:

Hon. Amb. Ukur Yatani has over 27-year experience in public administration, politics, diplomacy and governance in public sector since 1992. Before his appointment as Cabinet Secretary for the National Treasury & Planning he served as the Cabinet Secretary for Labour and Social Protection since January 2018. Between the years 2006-2007 while Member of Parliament for North Horr Constituency, he also served as an Assistant minister for science and technology. At the height of his career (March 2013-August 2017), he served as a pioneer Governor of Marsabit County, the largest County in the Republic of Kenya. Between June 2009 and October 2012, he served as Kenya's Ambassador to Austria with Accreditation to Hungary and Slovakia and Permanent Representative to the United Nations in Vienna. He held senior leadership positions at various diplomatic and international agencies such as International Atomic Energy Agency (IAEA), United Nations Organization on Drugs and Crimes (UNODC), United Nations Industrial Development Organization (UNIDO), United Nations Convention Against Transnational Organized Crime (UNTOC), Convention on Crime Prevention and Criminal Justice (CCPJ), and African Group of Ambassadors among others. He has Master of Arts in Public Administration and Public Policy, University of York, United Kingdom, 2005; and Bachelor of Arts in Economics, Egerton University, Kenya, 1991.

CS Hon. Betty C. Maina, EGH, CBS

CS Ministry of Industrialization, Trade and Enterprise Development:

Hon. Betty C. Maina, EGH brings a wealth of experience and professional capability built over two decades of engagement with top-notch public and private sector organizations.

She has more than 27 years' experience in organizational leadership and development, with an ability to prepare and implement strategic business plans and mobilize resources for implementation, traits that place her at a strategic position to effectively lead the coordination of Industrialization, Trade and Enterprise Development in Kenya.

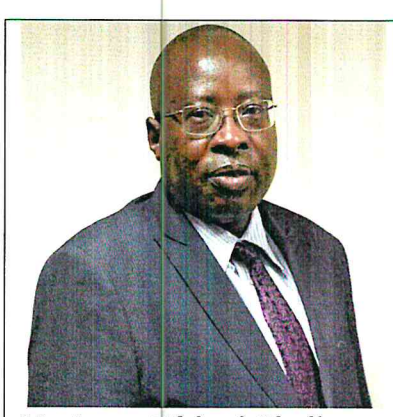
Hon. Maina has served as the Principal Secretary in the Ministry of Environment and Forestry, State Department for industrialization, and State Department of East African Affairs. She has also served as the Chief Executive of the Kenya Association of Manufacturers for 11 years (between June 2004–July 2015), where she not only oversaw the doubling of membership of the association but also established seven satellite offices to complement the services offered at the national office.

She attained a Master of Science Degree in Development Administration and Planning from the University College of London in 1998, having studied Land Economics at the University of Nairobi where she attained her undergraduate degree in 1988.

	She has also undertaken short courses in several key areas, among them Budgeting and Financial Management (Harvard University), Developing Anti-Corruption Strategies (World Bank, Washington), Gender and Development Planning (University College of London), and the Role of Public Policy in Private Sector Development (Strathmore University College), to name just a few. Prior to joining the State Department, Ms. Maina was the Director of her consultancy firm: BECEM Solutions, and East Africa Regional Representative of Genetics: Analytics, an economic consulting group with offices in Nairobi, New Delhi, and Johannesburg.
 **Dr. Francis Owino**	**Principal Secretary: State Department for Industrialization** Dr. Owino is the Principal Secretary at the State Departments for Industrialization in the Ministry of Industry, Trade and Cooperatives. He holds a Doctor of Philosophy [PhD] in Peace and Conflict Studies from Masinde Muliro University of Science and Technology obtained in 2013, Master of Business Administration [Strategic Management] from Kenya Methodist University, 2008, Bachelor of Arts [B.A] 2nd Class Upper Division, University of Nairobi, 1989. Some of his previous assignments include; Director, National Cohesion and Values with effect from 8th September 2009 to 14th August 2018 during which he successfully steered the formulation of policies on National Cohesion and National Values as enshrined in the Constitution of Kenya. He served in the Authority up to 3rd June 2020 when the Authority was moved to State Department for Trade and Enterprise Development.
 **Amb. Johnson Weru**	**Principal Secretary: State Department for Trade and Enterprise Development** Amb. Johnson Weru, is an alumni of Harvard University Kennedy School of Government, University of Nairobi and University of Leeds. He is a career diplomat and public servant with over twenty seven years' experience working in Government and International Development Agencies in Africa and Europe. He is concurrently pursuing a doctorate in International Trade from Brussels University in Belgium. Prior to his appointment as Ambassador to the Kingdom of Belgium, the Grand Duchy of Luxembourg and Mission to the European Union Amb. Weru had a distinguished and long service at the Ministry of Foreign Affairs where he served as Director for Economic Affairs and External Trade. Amb. Weru has wide experience in international finance, international trade negotiations and public sector management and restructuring. He has previously held advisory positions with the World Bank and United Nations Development Programme. Amb. Weru has held several senior positions in the public service including serving as Joint/deputy Secretary for various public sector reform Task

	Forces among them Technical Committee on Governance Justice, Law and Order Sector Reforms, Legal Sector Reform Secretariat and Task force on Rationalization, Restructuring and Strengthening the Ministry of Foreign Affairs. He has also served as adjunct professor and Lecturer in Economics and Finance at Catholic University of East Africa and has served as alternate director to several State Boards including Kenya Vision 2030 Delivery Board, Brand Kenya Board and the National Council for Science and Technology. He joined MSEA Board on 4th June 2020 when the Authority was moved from State Department for Industrialization to State Department for Trade.
 **Mr. Humphrey N. Ndung'u**	**Director:** Mr. Ndung'u was born on 23rd September 1962. He is a visionary, delivery and execution leader with over 13 years' progressive responsibility heading teams, providing strategic solutions and large scale projects with companies and organisations. He also has expertise in executive leadership, product management, contract negotiations, and business development. Successful experience building innovative digital businesses. His latest stint was at Mobile Decisioning Holdings Limited where he worked as Group Chief Financial Officer 2011 – 2012, Group Chief Operating Officer 2012 – 2013 and Group Director, Strategy 2013 – 2014. He has also worked for Equity Investment Bank Limited, Renaissance Capital Kenya Limited, K-Rep Bank Limited, Consolidated Bank of Kenya Limited, Standard Chartered Bank PLC - South Africa, Standard Chartered Bank Kenya and Limited First American Bank of Kenya Limited. Mr. Ndung'u is an Independent Director of the Board of MSEA and Chairperson to Finance, Human Resource and Administration Committee of the Board.
 **Mr. Anthony Kwache**	**Director:** Mr Anthony Kwache was born on 12th December 1971. Mr Kwache joined the Micro and Small Enterprises sector in the year 1995 after a stint in formal employment as a newspaper vendor and selling merchandise in Nairobi and later moved to Kisumu the same year to continue along Oginga Odinga Street. In the year 1999 he started supplementing his income by venturing into vegetables farming in his rural home. During this period he was elected to be the Chairperson of the traders, shoe shiners and the newspaper vendors in Kisumu to lead in advocating for their recognition and provision of a suitable environment for their businesses. He also joined hands with the Jua Kali Associations to champion for the enactment of laws and regulations that could enhance the governance and growth of the valuable sectors. In the year 2005 when the Institute of Economic Affairs was conducting a research on the organizing and governance of the trade and service sectors, Mr. Kwache was part of the team and was first elected in 2008 as a

	co-opted member of the management board and national executive member. This gave birth to the Kenya National Association of Street Vendors and Traders (KENASVIT). He is the Chairperson of Kisumu Informal Traders and Economic Support which is affiliated to KENASVIT. He has championed for provision of adequate worksites for the members of the Jua Kali and other sectors, the enactment of the MSE Act 2012 and has been leading KENASVIT in sensitizing the sector members on the Act and following up on its full implementation. He is also Chairman of Kisumu County MSE Association. Mr. Kwache is the Chairperson of Development and Infrastructure Committee of the Board of MSEA.
 **Ms. Zohra Baraka**	**Director:** Zohra Baraka was born on 26th March, 1963. She is the founder and Executive Director at Mohazo Ex Impo Limited in Kenya that has had milestones in commercial crafts in the global markets for the last 24 years hence giving a platform for Africa to showcase the rich ethnic culture that they bring to the global market place. Zohra also serves in various organizations that promote gender equality, women leadership and cross-cultural exchange in education and business and also supports dialogue between communities. She has also been recognized in the National Jitihada Awards in Kenya where she won first place in the Best Business Plan Competition and also Woman Entrepreneur of the year 2009. In 2011 she was nominated as the African Women Entrepreneurship Programme (AWEP) ambassador for Kenya and now sits as the Board Chairperson for AWEP. She is also a Board member for Federation of Womens Entrepreneur Associations (FEWA), Board of the South South Centre (SSC) and also sits in the Colorado State University and United States International University (USIU) Board. She is the Chairperson of Strategy and Business Development Services Committee of MSEA Board.
 **Mr. Billy Baltazar**	**Director:** Mr. Baltazar has had diverse experience in different fields including Health Policy, Health Financing and management of teams both in private and public sector. He holds a Bachelor of Commerce degree in Management from Catholic University of Eastern Africa and currently pursuing Master of Science in Human Resource Management from the University of Nairobi. He also has a Diploma in Computer Programming and Human Resource Management. Mr. Baltazar has attended short courses in Leadership and Governance, Quality Management Systems, Statistical Methods among others. Currently he is working with NASCOP CDC under Ministry of Health. Previously he has worked with Kenya Medical Supplies Agency. He is the Chairperson of Audit and Risk Committee of MSEA Board.

 **Mr. Isaac Mbingi Okello**	**Director:** Born in 1964, Mr. Okello holds a Master of Commerce Degree (Business Management) with over 20 years' experience in Human Resource and Administration in both the public and private sector. He is an Advocate of the High Court of Kenya and holder of a Post Graduate Diploma in Law from the Kenya School of Law and a Bachelor of Laws Degree from the University of Nairobi. He is currently the Administrative Secretary, Central Organization of Trade Unions, Kenya (COTU-K). He is also a member of the Kenya Institute of Management and the Law Society of Kenya.
 **Eng. Charles Kalomba**	**Director:** Eng. Kalomba was born on 18th August, 1962. He is a graduate of industrial instrumentations from Institute of Machine Tools Batala, India and also renewable energy scientist from the Mithradham Energy Institute in Cochin, Kerala Southern India. He has also a Higher National Diploma in Automotive from Kenya National Polytechnic. He is the founder Member and developer of the framework at National Industrial Training Authority. He is also the chief architect, lead Consultant and co-chair to the Vice Chancellor to the "JKUAT Mashinani" Initiative, public-private sector collaboration between the Jomo Kenyatta University of Agriculture and Technology and the indigenous local industry/JuaKali, whose specific objective is to build the capacity of the University's linkages with the MSE/Jua Kalis. In 2017, he was appointed by the Board of National Industrial Training Authority (NITA) as the Chairman of the Commercial, Wholesale, Retail Trade and Allied Agencies (CWR), with a huge Component of Private Security modernizing and standardizing.
 **Mr. Yuda Imunya**	**Director:** Born in December 20th 1965. Mr. Imunya holds a Bachelor's degree in Business Administration and Management from Kenya Methodist University. He has also trained on Leadership, Governance and Management at Kenya School of Government. Mr. Imunya also attended a short course in Governance and Management in Johannesburg, South Africa. He has a vast experience in business and management and currently is a Director at Ideal Security Services Limited. Prior to that, he was a Member of County Public Service Board at Meru County. He has previously worked with Kangeta Girls High School, Henneiman Educational Publishers before moving to East African Educational Publishers as Credit Controller in charge of East African Countries Branch Office.

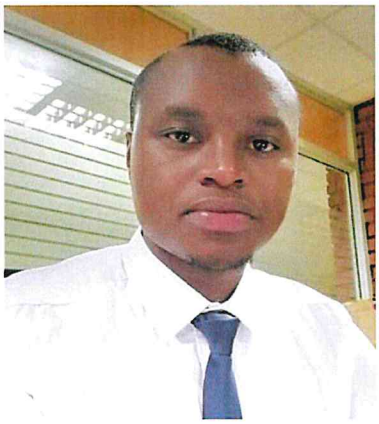
 **Ms. Caroline Karanja**	**Director:** Ms. Karanja was born on 25th March 1974. She is a graduate of the United States International University Africa (USIU-A) with a major in International Business Administration - finance option. She has attended short courses in Leaders in Action, Basic Banking Operations, and Performance Management among others. Ms. Karanja has over 15 years of work experience both in the banking and microfinance sectors. Currently she is the Chief Executive Officer at Association of Micro-finance Institutions Kenya (AMFI-K). She has previously held senior positions at Commercial Bank of Africa, Nature Expeditions Africa Limited and Citibank N.A.
 **Mr. Joseph Samal Lomwa**	**Director:** Mr. Lomwa is a holder of Bachelor of Arts Degree in Development Studies from Kimmage Development Studies Centre-Dublin, Ireland and Diploma in Community Development from Premise Development Training Institute. He has also a Certificate in Social Development Work. Mr. Lomwa is an initiative driven leader and Public Servant with over 20 years serving the community both in the Non-Governmental Organisation and the Public sector. He has extensive project management, public administration, community empowerment, leadership among others having served as a Member of Parliament (MP) for Isiolo North Constituency between March 2013-2017. Prior to then, he worked as Executive Director (CEO) at PREMAP- a local CBO, based in Isiolo. Previously, he has in senior positions at Catholic Development Office and Modogashe Development Office.
 **Ms. Rose Mwongera**	**Alternate to Principal Secretary Youth Affairs:** Ms. Mwongera sits in MSEA Board as alternate to Principal Secretary, State Department for Youth Affairs. She is a holder of Master of Arts in Project Planning and Management from the University of Nairobi and Bachelor of Education in Home Economics from Kenyatta University. Currently she is a PhD student studying Development Studies at the Jomo Kenyatta University of Agriculture and Technology. Ms. Mwongera has vast experience in public policy, strategy and research currently working as Deputy Director in charge of Youth Development at State Department for Youth Affairs. Prior to that, she worked as Assistant Director coordinating and advising on Youth Mainstreaming from 2013 to 2016 at the Ministry of Health. Previously, she worked as Chief Youth Officer, Principal Youth Officer and then Assistant Director at the Department of Youth Development from 2007 to 2016.

 **Mr. Harun Rashid Khator**	**Alternate to Principal Secretary Industrialization:** Born in 25th June 1971, Mr. Khator is a holder of Masters of Arts in Political Science and Bachelor of Arts in Political Science both from the University of Karachi. He is currently pursuing Master in Security Management and Police Studies at Kenyatta University. Mr Khator is a member of Kenya Association for Public Administration and Management (KAPAM) and has attended short courses in Strategic Leadership Development Programme, Performance Management, Public Administration, and Senior Management Course among others. His experience in public policy and administration spans over a period of 23 years currently working as Director of Administration, State Department for Industrialization. Prior to then, he worked at State Department for Fisheries and the Blue Economy in the same capacity. Previously he has worked as County Commissioner, District Commissioner among other senior administration position in Government of Kenya.
 **Mr. Richard Gakunya**	**Alternate to Cabinet Secretary National Treasury:** Mr. Gakunya is a holder of Masters of Science in Economics and Statistics and Bachelor of Science in Economics and Statistics both from Odessa Institute of National Economy. He has attended short courses in Activity based costing, Fiscal risk reporting, Strategic Leadership Development Program, Public expenditure management and among others. He has extensive experience in budgeting, fiscal planning, public policy and public sector financial management currently working as Deputy Director of Budgets at National Treasury. Previously he has worked for over 20 years as Economist in the Public Service and Office of Controller and Auditor General as Auditor.
 **Ms. Gladys Kinyuah**	**Alternate to Principal Secretary Trade and Enterprise Development:** Ms. Kinyuah is a holder of Master's Degree in International Studies, Institute of Diplomacy & International Studies (IDIS), University of Nairobi specializing in international relations, investment and diplomacy and Master's Degree in Economic Planning, Kiev State University of Economics, Kiev, Ukraine, specializing in production planning in industries. She also has a Post Graduate Diploma in Integrated Rural Regional Development Planning (IRRDP) from the Institute of Development Studies, Rehovot – Israel. She has attended short courses in Security, Diplomacy, Strategic thinking and Policy formulation, International Trade Policy for National & Regional Development and among others. Ms. Kinyuah has over 27 years of experience and currently she is the Deputy Director International Trade at State Department for Trade. Previously she worked as Deputy Chief Economist and Assistant Director Economic Integration in the Ministry of East African Community.

MANAGEMENT TEAM

 **Mr. Henry M. Rithaa**	**Director General / Chief Executive Officer** Born in 1977, Mr. Rithaa holds an MBA (Strategic Management), Master of Arts in Regional Integration and Bachelor's degree in Finance. He is a Certified Risk Professional (GARP) and Certified in Regional Integration and Trade. He has worked in Banking, Micro Finance and Corporate Strategy for over 17 years both in private financial institutions and the Public Sector. He is also trained in Advanced Leadership and Management Development Program from Kenya Institute of Management and has done Strategic Leadership Development Program from Kenya School of Government. He is a member of the Kenya Institute of Management (MKIM) and Secretary to the Board of Directors. Henry has served in various Directorship positions in both Private and Public institutions.
 **Mr. Simon Nyamolo**	**Director, Corporate Services** Mr. Nyamolo holds a Master's Degree in Strategic Management from Jomo Kenyatta University of Agriculture and Technology, Bachelor of Business Administration (Finance) from Maseno Univeristy and is currently pursuing a PhD in Business Administration (Strategic Management) from the Jomo Kenyatta University of Agriculture and Technology. He is a member of the Kenya Institute of Management, Institute of Human Resource Management of Kenya and Institute of Certified Public Secretaries of Kenya. Simon's experience in corporate administration and management spans seventeen years prior to joining the Authority. He previously held senior positions at JKUAT, Kenya Forest Service and Kenya Institute of Mass Communication.
 **Mr. Samuel Matonda**	**Director, Business Development, Marketing and Trade** Mr. Matonda holds Master's Degree in Business Administration from Egerton University and Bachelors of Science degree from Jomo Kenyatta University of Agriculture and Technology. He has also attended Senior Management Course from Kenya School of Government. He is currently pursuing his Masters of Science in Environmental Chemistry. His experience spans fourteen years in management positions across various organisations including Pyrethrum Board of Kenya, Export Promotion Council of Kenya, Agropharm Africa Limited and Kenya Association of Manufacturers (KAM) among others.

 **Eng. Edward Karani**	**Director, Infrastructure Development, Technology and Innovation** Mr. Karani holds a Masters Degree in Project Management from Jomo Kenyatta University Of Agriculture and Technology. He is also a graduate of Bsc Electrical and Electronic Engineering and a Double degree in Bsc Telecommunication and Information Engineering from the same University. Edward has extensive experience in Project Management both in Private and Public sector. He is a member of Institute of Engineers Kenya and Engineers Board of Kenya in addition he has undergone training on Young leaders SME Development and Promotion.
 **Ms. Naomi Kariuki**	**Director, Human Capital Development and Administration** Ms. Kariuki holds a Master of Science in Human Resource Management from Jomo Kenyatta University of Agriculture and Technology and a Bachelor's degree in Business Administration and Management. She is a Certified Human Resource Professional (CHRP) and a full member of the Institute of Human Resource Management. She has attended other courses in Senior Management from Kenya School of Government, Credit Management, Risk Management and Public Relations among others. Currently pursuing MA in Diplomacy and International Relations. Her corporate experience spans over 15 years working in various institutions including the Council of Legal Education/Kenya School of Law, Export Promotion Council prior to joining the Authority.
 **Mr. Joseph Kimwele**	**Head, Finance and Accounts (Up to 31.12.2019)** Mr. Kimwele holds Master's degree in Finance and a Bachelor of Commerce (Accounting). He is also Certified Public Accountant of Kenya and a member of the Institute of Certified Public Accountants of Kenya. He has worked as a Finance Officer for a period of 13 years in the Public Service. Mr. Kimwele served the Authority since its inception up to the end of the first half of the financial year under review when he was recalled back to the State Department of Cooperative where he was seconded from.

 **Mr. Festus Musyoki**	**Head, Finance and Accounts (From 06.01.2020)** Mr. Musyoki holds a Master of Business Administration (Finance) and Bachelor of Commerce (Finance) both from the University of Nairobi. He is a Certified Public Accountant of Kenya and a Member of the Institute of Certified Public Accountants of Kenya. Festus has attended short courses in Senior Management, Financial Planning and Modelling, Corporate Governance, Project Management and Legal Audits. He is currently pursuing Master of Arts in Project Planning and Management from the University of Nairobi. Festus experience in accounting and finance spans over thirteen years working in various institutions including National Environment Management Authority, Nursing Council of Kenya and British High Commission prior to joining the Authority on 6th January 2020.
 **Ms. Anne Kareithi**	**Head, Supply Chain Management** Ms. Kareithi holds a Master of Business Administration from United States International University-Africa (USIU) and a Bachelor of Purchasing and Supplies Management from Jomo Kenyatta University of Agriculture and Technology (JKUAT). She also holds a post graduate Diploma in Purchasing and Supply from Chartered Institute of Purchasing and Supply (CIPS). Ann has over 10 years' experience in procurement and supply chain and has worked in various organisation including Diaego PLC, East African Breweries Nairobi, International Monetary Fund and Comprehensive Nuclear, Austria among others.
 **Mr. Moses Kalung'e**	**Ag. Head, MSE Strategy, Planning and Coordination** Mr. Kalung'e holds a Bachelor of Science in Applied Statistics and currently pursuing Master of Science in Monitoring and Evaluation from Jomo Kenyatta University of Agriculture and Technology. Moses is a certified monitoring and Evaluation professional and a Member of the Evaluation Society of Kenya. He has attended short courses in Project Management, Data Analysis and Reporting, monitoring and evaluation among others. Moses has vast experience in Programs Evaluation, Resource mobilization, data management and Research having worked in both Private and public organizations including National Industrial Training Authority, Spotlight Research Firm and National Aids Control Council. He Joined MSEA on 2nd January 2020 as Senior Resource Mobilization and Partnerships Officer.

CHAIRMAN'S STATEMENT

The role of Micro and Small enterprises (MSEs) in the economic development of Kenya cannot be over emphasized. Beyond meeting the demand for the day-to-day goods and services of most of the population of Kenya, MSE's make significant contributions to global trade and economic development. Moreover, the MSE sector provides employment to the greater share of the workforce. The responsibility to promote, regulate and develop this sector is the primary goal of the Micro and Small Enterprises Authority.

The recent outbreak of the COVID-19 pandemic has dealt a great challenge to the MSE sector in Kenya. While the implemented containment measures to curb the spread of the virus have been necessary, they have implied sharp contractions in the level of output, household spending, corporate investment and international trade. In many instances, this has led to imminent closure of micro and small enterprises and disruptions in supply chain operations which has undeniably had a knock-on effect on businesses locally. The negative effect of the pandemic to the Kenyan economy cannot be overlooked. The Authority has been working round the clock to guarantee business continuity of the Micro and Small Enterprises through targeted initiatives.

The MSEA Board is grateful to all the stakeholders including the Ministry of Industry, Trade and Enterprise Development and the associated state corporations, The Ministry of Interior and Coordination of National Government, The National Treasury, Public Service Commission, The Ministry of Health, The National Assembly and the County Governments for their support in Development of Micro and Small Enterprises Sector. I also take this opportunity to appreciate the innovative and resilient Micro and Small Entrepreneurs who have endeavoured to provide quality products, employment and creation of wealth hence increasing livelihood of many Kenyans.

During the year under review, the Board focused on building public private partnerships with financial institutions to provide alternative channels for affordable credit to Micro and Small Enterprises as well as develop programs to boost their financial literacy skills. Focus was made on championing fiscal policy to operationalize the MSE Fund to provide affordable and flexible

credit to MSEs. The authority also spearheaded the review of the MSE policy which was assented to towards the end. In order to facilitate job creation, the authority successfully implemented cycle 4 and 5 of the Kenya Youth Empowerment and Opportunities Project (KYEOP).

As the Chairman of the Board, I cannot fail to highlight the crucial role played by the staff of the Authority towards the realization of the mandate of the Authority. On behalf of the Board of Directors, I take this opportunity to thank the entire MSEA team for their diligent service under the able guidance and leadership of the Chief Executive Officer.

.....	29-06-2021
Charles Waithaka	**Date**
Chairman of the Board	**Nairobi**

REPORT OF THE CHIEF EXECUTIVE OFFICER

The Micro and Small Enterprises Authority (MSEA) is a State Corporation established under the Micro and Small Enterprises Act No. 55 of 2012 and domiciled in the Ministry of Industrialization, Trade and Enterprise Development, The State Department for Trade. The Act provides for Promotion, Development and Regulation of Micro and Small Enterprises and establishment of the Micro and Small Enterprises Authority.

In the financial year ending 30th June 2020, Kshs 258.6 million were received from the Government as recurrent disbursements compared to Kshs 106.3 million received in the previous year. The Authority received development grant amounting to Kshs 630.7 million for construction and equipping Constituency Industrial Development Centres and a further Kshs 300 million for construction of cold storage facilities under presidential directive. The development partners disbursed Kshs 442.3 million compared to Kshs 261.6 million in previous period through Kenya Youth Employment and Opportunities Project funded by World Bank. The Authority intends to maintain and deepen these partnership and bring in more development partners.

During the same period, the Authority reported a surplus of Kshs 9.3 million compared to deficit of Kshs 30.8 million in the previous financial year. The value of the total asset increased from Kshs 96 million to Kshs 953.6 attributable to capital acquisition and development funding during the period.

The Authority achieved the following during the period; facilitated over 1500 MSE's access regional markets through the ASK shows and the Jua Kali Nguvu Kazi exhibitions where 196 MSEs were facilitated to attend in Kigali, Rwanda. The Authority has provided worksites and CIDC for MSE development, by renovation over 158 CIDC's and 428 Worksites across the country. MSEA is also providing infrastructure support which includes; cold storage facilities for bananas and potatoes in Kisii Meru and Olkalau to curb post-harvest losses and promote localized value addition.

The Authority also launched and is operationalizing the Center of Excellence in Kariobangi. The Center has common user facilities that are used by artisans to orient their businesses

commercially by up scaling their capacity of production. The artisans are also trained in the following sub-sectors which include; metal fabrication, electrical works, glass fitting, leather works, textile and upholstery, automotive works and woodwork. MSEA in collaboration with the government will be replicating this centre in various regions across the country in order to empower MSE's by providing workspaces, machines and equipment and training based on the needs of the MSE's.

At Kariobangi there is also the Biashara Center (compliance-standardization). At this Center is where government services have been centralized and integrated for ease of access by MSE's in the process of formalizing their businesses. The program is a multi-agency partnership between KEBS, KRA, KIE, KIPI, KIRDI, KENAS, MSEA and ACA. This model will also be replicated in various regions across the country.

On behalf of the Management, I would like to take this opportunity to recognize and appreciate the direction of the Board of Management and the contribution of the Cabinet Secretary Ms. Betty Maina and Principal Secretary Amb. John Weru who have maintained the efforts of the Board in meeting the expectations of the Public. I also appreciate the National Treasury for the continued support in providing the resources to get us where we are today. For all our stakeholders and general public who have continued to believe in us, I say thank you very much.

I wish to once again assure my colleagues and partners in the MSE Sector of my utmost commitment to serve you with diligence expediency and passion to realise your dreams today and for your future generations and more so actualise the Vision 2030.

.....	29.06.2021
Henry M. Rithaa	**Date**
Director General / CEO	**Nairobi**

PERFORMANCE REVIEW FOR 2019-2020 FINANCIAL YEAR

Strategic plan

The Authorities programmes and activities for the last six years were guided by strategic plan covering the period 2013-2017 and a business plan covering the period 2019-2020. The Strategic Plan was implemented with significant achievements. As at the end of the reporting period, the Authority was in the process of developing strategic plan 2019-2024 which will provide strategic direction during that period. The strategy will also Align MSEA Strategic direction with the relevant National, regional and international development agenda and provide an overall framework for prioritization and allocation of resources.

Business plan

The Business Plan 2019-2020 was implemented in absence of Strategic Plan during the period under review. During implementation, performance progress was tracked and after the contract period a performance review was done to give an overview on performance. The implementation of the Business Plan, Performance Contract and the Annual Work Plan was evaluated with good performance indicators. The performance review focused on the core mandate of the Authority.

During the reporting period, the Authority created 70,129 jobs indirectly and 8,991 jobs directly totalling to 79,210 jobs through issuance of grants and Business Development Services through Kenya Youth Employment and Opportunities Project (KYEOP). The Authority facilitated 1,582 MSEs to access market through local ASK and exhibitions, and EAC Nguvu Kazi Exhibition held in Kigali, Rwanda.

The National MSE Sector Harmonization and Coordination Strategy was finalized and adopted by the Board and was undergoing further review and approval at ministerial level as at the end of reporting period.

Constituency Industrial Development Centres (CIDCs)

During the financial year under review, the Authority refurbished and upgraded 97 CIDCs and work sites in different Centres across the Country. The Authority also provided common user

facilities for leather, textiles, furniture, metal and handicrafts equipment in the 97 completed Centres, this included training in basic machine operation. This resulted to increase in employment in Micro and Small Enterprises Sector in Kenya to 52,250.

The Authority is also facilitating ease of doing business through facilitating connection of three phase electricity to Constituency Industrial Development Centres and MSME worksites in Kenya.

Recruitment

During the period under review, the Authority recruited 150 staff out of the authorised 175 in the financial year against a staff establishment of 262 staff. The recruited staff included 35 staff absorbed from State Department for Industrialization upon successfully undergoing suitability interview.

Re-Categorization of MSEA

State Corporations are classified in eight broad functional categories based on mandate and core functions. The 2004 SCAC Regulations stipulates that when a new State corporation has been established as provided for under Section 27(1) (b) of the State Corporations Act, Cap.446, the categorization of such a Corporation will be referred to the State Corporation Advisory Committee for its advice on a case by case basis.

Currently, MSEA is categorized at PC 3B. The Kenya Vision 2030 economic development blue print envisages that Kenya will transform into a newly industrializing, middle income country providing a high quality life to all its citizens by the year 2030. The vision recognizes the important role played by the Micro and Small Enterprises sector in the creation of employment and wealth for Kenyans.

The Vision further proposes several projects and programmes aimed at developing the sector and strengthening its role in national development as expounded in the First MTP and Second Medium Term Plans. Key amongst these were: development of Micro and Small Enterprises Centres of Excellence (CoEs); and improving the quality of MSE products; specialized training

for MSE operators; increasing the participation of youth and vulnerable groups in MSE activities.

The above called for strengthening of MSEA to effectively deliver its mandate and implement the various projects. This then required re-categorization of MSEA from the current PC 3B to a higher category.

The Authority has already presented its bid for the re categorization and awaiting a decision by SCAC and other Authorities involved in the exercise.

Enterprise Resource Planning System

An Enterprise Resource Planning (ERP) System, is intended to integrate operations of various departments in an organization to enhance and ensure seamless operations within an organization. With these in mind, the Authority procured Microsoft Dynamics 365 and embarked in the process of automation of various departmental processes. These departments documented the procedures and processes which assisted in the customization of the various departmental Modules.

Development is currently ongoing for the modules for Financial Management, Supply Chain management, Human Resource management, Project management, contracts & Payroll Services with web-based Employee Self Service; Human Resources Management; Process and Alerts; General Administration and IT Helpdesk. The project is being funded by World Bank through Kenya Youth Employment and Opportunities Project and the system is expected to be rolled out in July 2020.

CORPORATE GOVERNANCE STATEMENT

The Board of Management of Micro and Small Enterprises Authority is responsible for the governance role of the Authority. Both the Board and senior management of the Authority are committed to the highest levels of corporate governance, which it considers critical in achieving the Authority's mandate. Accordingly, the Authority therefore fosters a culture that values and rewards the highest ethical standards, personal and corporate integrity.

1. The Board

A. Board Composition

The Board of Directors oversee the Authority's Corporate Governance framework by ensuring that the best practices in corporate governance are adhered to.

An effective board must comprise of highly qualified and competent directors capable of exercising objective, independent judgment to guide strategy development and monitor management. The board must have a proper understanding of the role and responsibilities of the board to ensure that the board has appropriate autonomy, authority and accountability in exercising its functions. More over an effective board follows operating practices such as creating board committees and providing specialized training and evaluation for directors that improve board's functioning and decision making.

The Authority's board is headed by a non-executive chairman appointed by the President, the remaining fourteen (14) directors in the board are appointed by the Cabinet Secretary responsible for Industrialization, Trade and Enterprise Development as per the Micro and Small Enterprises Act No. 55 of 2012, four (4) are alternate directors to Principal Secretaries for Industrialization, Trade, Youth and National Treasury respectively, one (1) director who is the Chief Executive Officer sits in the board as the Secretary, while four (4) members sit in the board as independent directors. The rest represent the subsectors of trade, services, and manufacturing.

The Board is composed of directors with a diverse mix of experience in various industries and competencies in various fields such as Insurance, Banking, Law, Accounting and Human resources. The unique experiences provide the Board with a mix of skills in discharging its responsibilities and providing a strategic vision and direction for the Authority by bringing in

the element of independent judgment and risk assessment in the decision-making process. All directors have a tenure of three years with a provision for re-appointment once subject to a favourable performance evaluation by the appointing authorities.

B. Roles and responsibilities of the Board.

The roles of the board is to provide overall strategic direction of the Authority, monitor the Authority's performance, set policy guidelines for management and ensure that the business of the Authority is conducted in compliance with relevant laws and regulations. To achieve continued prosperity for the Authority, the Board exercises leadership, enterprise, integrity and good judgement and shall always act in the best interest of the Authority.

The roles and responsibilities of the Board broadly include the following;

i. Establishing the Authority's strategic direction and priorities and adopting business Plans proposed by management for the achievement of strategic objectives
ii. Monitoring and evaluating the implementation of strategies, policies, management Performance criteria and business plans
iii. Providing oversight in financial reporting to government agencies and key stakeholders
iv. Ensuring availability of adequate resources for the achievement of the Authority's Objectives.
v. Safeguarding the Authority's assets by instituting appropriate internal control systems.
vi. Reviewing succession planning for management and making senior management Appointments, organizational changes and remuneration issues.
vii. Overseeing business affairs of the Authority considering emerging risks and Opportunities.
viii. Ensuring the Authority complies with all relevant laws, regulations and codes of best Business practices.

C. Committees of the Board

The Board has the authority to establish committees and to delegate powers to such committees. The purpose of the committees is to assist the Board in advancing its functions efficiently. The Board, while recognizing that certain powers can be delegated to the

committees, reaffirms that the ultimate accountability for such matters remains with the Board.

Each committee meet at least four times in a year to prepare for Board meetings and file appropriate reports to be considered by the Board. Necessity for additional meetings is considered and if appropriate, approved by the Board with due regard to the mutual responsibility and accountability of the Board.

The Committee elect the Chair from among the Committee member on their first meeting. It is expected that each Board member will serve on at least two Board Committees.
Ad hoc committees of the Board may be appointed from time to time to address particular issues. The Terms of Reference of such a committee shall be determined by the Board.

In furtherance of its mandate, a Committee may propose to the Board for approval the use of external expertise whose work will be directed by the Committee but ultimately submitted to the Board for approval.

The Board may, by resolution either generally or in any particular case, delegate to any Committee of the Board, or to any member thereof, or to any officer, employee or agent of the Authority the exercise of any of the powers or the performance of any of the functions or duties of the Board to the extent permitted by the MSE Act or any other written law.

Currently, there are five committees constituted by the Board: Audit and Risk Management Committee, Finance, Human Resources and Administration Committee, Strategy and Business Development Services Committee and Development and Infrastructure Committee.

Membership to these committees is based on relevant skills, expertise and experience required to handle respective functions. The Committee execute their functions in accordance with terms of reference which defines its mandate, roles and responsibilities.

The roles of the various Board Committees are as below:

i. Audit and Risk management Committee

The committee comprises of five Board members with Head of Internal Audit providing secretarial services as required by the Public Finance Management Act Regulations. The committee assists the Board in fulfilling its corporate governance responsibilities and in particular to strengthen the effectiveness of the internal audit function; maintaining oversight on internal control systems; provision of general oversight in risk and compliance matters; and ensuring implementation of audit reports and recommendations.

The terms of reference for the Committee are highlighted below;

- ✓ Formulating Internal control systems
- ✓ Reviewing the internal control policies and procedures
- ✓ Analysing internal and external Audit reports
- ✓ Ensuring implementation of recommendation of Audit reports
- ✓ Developing/implementation Risk Management policy

The committee held four (4) meetings during the year.

ii. Finance, Human Resources and Administration Committee

The committee comprises of seven Board members and it's responsible for providing advice to the Board on MSEA's financial and human resource management, performance and their financial implications.

The terms of reference for the Committee are highlighted below;

- ✓ Resource mobilization
- ✓ Work planning and Budgeting
- ✓ Reviewing the Authority's ICT policies and systems
- ✓ Overseeing procurement processes and procurement plan
- ✓ Reviewing human resources policies and procedures
- ✓ Performance contracting
- ✓ Performance Appraisal
- ✓ Reviewing financial policy and procedures
- ✓ Ensuring compliance with legal and statutory requirements

The committee held six (6) meetings during the year.

iii. Development and Infrastructure Board Committee

The committee comprises of six board members and it's responsible for the Acquisition and documentation of land for MSE use, Infrastructure Development, MSE Centres of Excellence development and equipping, facilitating access to Markets and Exhibition centres for MSEs and Jua Kali sheds and work sites acquisition and development.

The terms of reference for the Committee are highlighted below;

- ✓ Acquisition and documentation of land for MSE use
- ✓ Infrastructure Development
- ✓ Developing and equipping of MSE Centres of Excellence and CIDCs
- ✓ Markets and Exhibition centres
- ✓ Developing Jua Kali sheds and work sites

The committee held two (2) meetings during the year.

iv. Strategy and Business Development Services Board Committee

The committee comprises of eight board members and deals with Policy formulation and review, Strategy Planning, Research and Product Development, Protection of Intellectual property, Marketing and Access to markets, Technology development, acquisition and transfer, Training and capacity building for MSEs and Monitoring and Evaluation systems.

The terms of reference for the Committee are highlighted below;

- ✓ Policy formulation and review
- ✓ Strategy Planning
- ✓ Research and Product Development
- ✓ Protection of Intellectual property
- ✓ Marketing and Access to markets
- ✓ Technology development, acquisition and transfer
- ✓ Training and capacity building for MSEs
- ✓ Monitoring and Evaluation systems

The committee held four (4) meetings during the year.

D. Board Almanac and Meetings

The Board almanac contains a schedule of meetings of the Board and its committees for the year. The agenda for each Board meeting is prepared and circulated to members in advance. The Board holds its regular meetings at least once every three (3) months and special meetings may be called when necessary. During the year under review, the Board held five (5) meetings.

i. Board and committee membership

Analysed below is the Board and Committee membership during the reporting period.

		Board Committees			
Name of the Director	Board Position	Finance, HR & Admin	Development & Infrastructure	Strategy & BDS	Audit & Risk
Mr. Charles Waithaka	Chairman	-	-	-	-
Mr. Henry Rithaa	Chief Executive Officer	√	√	√	-
CS Amb. Ukur Yatani	CS, The National Treasury	-	-	-	-
CS Hon. Betty C. Maina	CS, Industrialization, Trade and Enterprise Development	-	-	-	-
Dr. Francis Owino	PS, Industrialization	-	-	-	-
Amb. Johnson Weru	Ps, Trade	-	-	-	-
Mr. Humphrey Njoroge	Member	Chair	-	√	-
Mr. Anthony Kwache	Member	-	Chair	√	-
Ms. Zohra Baraka	Member	-	-	Chair	√
Mr. Billy Baltazar	Member	-	√	-	Chair
Ms. Caroline Karanja	Member	√	-	√	-
Mr. Isaac Mbingi	Member	√	-	√	-
Mr. Joseph Samal	Member	√	√	-	-
Mr. Charles Kalomba	Member	-	√	√	-
Mr. Yuda Imunya	Member	-	√	-	√
Ms. Rose Mwongera	Alternate to PS Youth	√	-	√	-
Mr. Harun Rashid	Alternate to PS Industrialization	√	√	-	-
Mr. Richard Gakunya	Alternate to CS The National Treasury	√	-	-	√
Ms. Gladys Kinyua	Alternate to PS Trade	-	-	√	√

ii. Board and committee meeting attendance

Analysed below is the Board and Committee meeting attendance during the reporting period.

			Board Committee Meetings			
		Board Meetings	Finance, HR & Admin	Development & Infrastructure	Strategy & BDS	Audit & Risk
Name of the Director	**Board Position**	5*	6*	2*	4*	4*
Mr. Charles Waithaka	Chairman	5/5	-	-	-	-
Mr. Henry Rithaa	CEO	5/5	6/6	2/2	4/4	-
Dr. Francis Owino	PS, Industrialization	1/5	-	-	-	-
Mr. Humphrey Njoroge	Member	5/5	6/6	-	4/4	-
Mr. Anthony Kwache	Member	5/5	-	2/2	4/4	-
Ms. Zohra Baraka	Member	4/5	-	-	4/4	4/4
Mr. Billy Baltazar	Member	4/5	-	2/2	-	3/4
Ms. Caroline Karanja	Member	3/5	6/6	-	4/4	-
Mr. Isaac Mbingi	Member	5/5	6/6	-	4/4	-
Mr. Joseph Samal	Member	4/5	6/6	2/2	-	-
Mr. Charles Kalomba	Member	3/5	-	2/2	4/4	-
Mr. Yuda Imunya	Member	4/5	-	2/2	-	3/4
Ms. Rose Mwongera	Alternate to PS Youth	3/5	6/6	-	4/4	-
Mr. Harun Rashid	Alternate to PS Industrialization	2/5	5/6	1/2	-	-
Mr. Richard Gakunya	Alternate to CS The National Treasury	5/5	6/6	-	-	4/4
Ms. Gladys Kinyua	Alternate to PS Trade	5/5	-	-	4/4	4/4
Mr. Gerald Mwangi	Representing Inspectorate of State Corporations	3/5	4/6	1/2	2/4	3/4

* Total number of meetings for the Board and various committee during the period

E. Board Evaluation

The Board undertakes an annual evaluation of its performance facilitated by an independent governance specialist from the State Corporation Advisory Committee (SCAC) which results to a report with recommendations on areas that require improvement. The annual self-

assessment is aimed at improving members' individual and collective performance for continuous growth and sustainability of the Authority.

F. Board Charter

The Board has in place a charter which outlines powers and responsibilities of the Board and its members, appointment, remuneration, term of the Board members, conduct of meetings, committee terms of reference, conflict of interest among others. The charter is premised on the Mwongozo Code and best Corporate Governance Practices.

G. Board Capacity Development

The Authority has put in place a formal induction programme for new Board members and continuous training for the directors to acquaint them with their responsibilities as well as keep them abreast of the Authority's strategy and operations.

H. Policies

The Authority has in place the following policies for effective management of the organisation:

- Corporate Governance Policy
- Board Charter
- Declaration of Interest Policy
- Risk Management Policy
- Information Communication Technology Policy
- Procurement Manual and Procedures
- Human Resource Policy
- Financial Policy and Manual

I. Accountability and Audit

Each financial year, Directors are required to prepare annual financial statements which reflect a true and fair view of the financial position of the Company as per the regulations of Public Finance Management Act 2012. The Board ensure that suitable accounting policies are consistently applied, supported by reasonable and prudent judgments, and estimates. The

Board also ensure financial statements are audited each financial year. The Office of the Auditor General is the external auditor of MSEA.

J. Board Effectiveness

The independence of the Board from the MSEA's corporate management is ensured by the separation of the functions of the Chairperson and Director General and a clear definition of their responsibilities.

The Chairperson is a non-executive Director and is primarily responsible for providing leadership to the Board while the Director General is responsible for the day-to-day management of the Authority. This achieves an appropriate balance of power, increased accountability and improved capacity for decision making.

K. Board Appointment and Removal

The Board is headed by the Chairman who is appointed by the President through a gazette notice on a 3 years renewable terms. The rest of the members are appointed by Cabinet Secretary in charge of Industrialization, Trade and Enterprise Development through a gazette notice for a period of 3 years term renewable once. The Board appointment is governed by MSE Act no.55 of 2012.

2. Performance Contract

The Board annually signs a performance contract with the Government as well as setting Corporate Performance Strategies with Management and continues to perform an annual self-evaluation exercise to review and audit its role and success or otherwise to meet the challenges envisaged at the beginning of each year.

3. Training and Development

The Authority recognizes the importance of having a well informed and fully empowered Board and Management. In this regard, relevant training and capacity development opportunities are organized to equip Directors and staff with skills and knowledge necessary to effectively perform their responsibilities.

4. **Conflict of Interest**

The Directors are required to make written disclosures of any transaction in which they have interest and which would constitute a conflict of interest and abstain from voting when such matters are being considered. The board maintains a conflict-of-interest register, where any member with an interest in any matter for discussion during board meetings registers it.

5. **Directors Emoluments**

The Board of Directors are entitled to a sitting and other allowances (where applicable) for every meeting attended, within the set Government guidelines. The Chairman is also paid a monthly honorarium. The aggregate amount of emoluments paid to the Directors during the financial year for services rendered are disclosed in the financial statements under Board Expenses.

6. **Statement of Compliance**

The Board of Directors confirms that Micro and Small Enterprises Authority has throughout the 2019/2020 financial year complied with the entire Statutory and Regulatory requirement and that the Authority has been managed in accordance with the principles of Corporate Governance.

7. **Internal control and risk management:**

i. **Internal Control**

The Directors are responsible for reviewing the effectiveness of the Authority's system of internal control which is designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against unauthorized use or disposition and the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be unforeseen and can only provide reasonable and not absolute assurance against material misstatement or loss.

The board has put in place an Audit and Risk Committee (ARC) responsible for monitoring and providing effective supervision of the management's financial reporting processes, risk management, compliance and receiving internal and external audit reports on behalf of the board.

The board has overall responsibility for the establishment and oversight of the Authority's risk management. The Board has also set up an Internal Audit Department which reports functionally, to the Audit and Risk Committee and administratively to the CEO. The Audit Department is responsible for monitoring the Authority's day to day risk management and it carries out an ongoing process of identifying, evaluating and managing significant risks inherent in the Authority.

The Board through the Audit Committee receives quarterly reports of the effectiveness of the system of risk management. The Board has also set out its responsibility for internal control in the Board Charter. There is clear separation of roles and there is an efficient system of internal control.

ii. Organization Structure

A clear organizational structure exists, detailing lines of authority and control responsibilities. The professionalism and competence of staff is maintained both through rigorous recruitment policies and a performance appraisal system which establishes targets, reinforces accountability and awareness of controls, and identifies appropriate training requirements. Training plans are prepared and implemented to ensure that staff develop and maintain the required skills to fulfil their responsibilities, and that the Authority can meet its future management requirements.

iii. Strategic Plan

The business of the Authority is determined by the Strategic Plan. The Strategic Plan sets out the objectives of the Authority, and the annual targets to be met to attain those objectives. The Strategic Plan is evaluated annually to assess the achievement of those objectives. The Board on an annual basis approves the work plan supported by the financial plan for the year. Progress against the plan is monitored on a quarterly basis. During the period under review, the

Authority's corporate plans were guided by Business Plan in absence of strategic plan which was undergoing development by close of reporting period.

iv. Internal Control Framework

The Authority continues to review its internal control framework to ensure it maintains a strong and effective internal control environment. Business processes and controls are reviewed on an on-going basis. A risk-based audit plan, which provides assurance over key business processes and operational and financial risks facing the Authority, is approved by the Audit Committee.

The Audit Committee considers significant control matters raised by management and both the internal and external auditors and reports its findings to the Board. Where weaknesses are identified, the Audit Committee ensures that management takes appropriate action.

v. Risk Management

The Authority has a structure and process to help identify, assess and manage risks. The process was in place for the period up to the time this report was approved. Management reviews all the risks in the Authority and updates the risk register and ensures that all new and emerging risks are appropriately evaluated and any further actions identified. The identified risks are reported to the Audit Committee to assist the Board in the management of risk.

8. Ethics and Code of Conduct

The Authority continues to promote an ethical culture among staff and key stakeholders to inculcate a value-based approach in corporate operations and decision making. In accordance with the Leadership and Integrity Act, 2012, the Authority has put in place policies, programmes, systems and structures that enhance high standards of ethical behaviour across the Authority. The Code of Conduct and Ethics enables us to consolidate and strengthen a culture of integrity and openness.

9. Management Team

The management team headed by the Chief Executive Officer implements the Board decisions and policies through action plans. The team meets regularly to review these action plans to ensure that the Board's objectives are achieved effectively and efficiently. The management committee considers policies and strategic measures for optimal business performance, monitors performance and makes recommendations to the Board. The CEO acts as the link between the Management and the Board of Directors.

MANAGEMENT DISCUSSION AND ANALYSIS

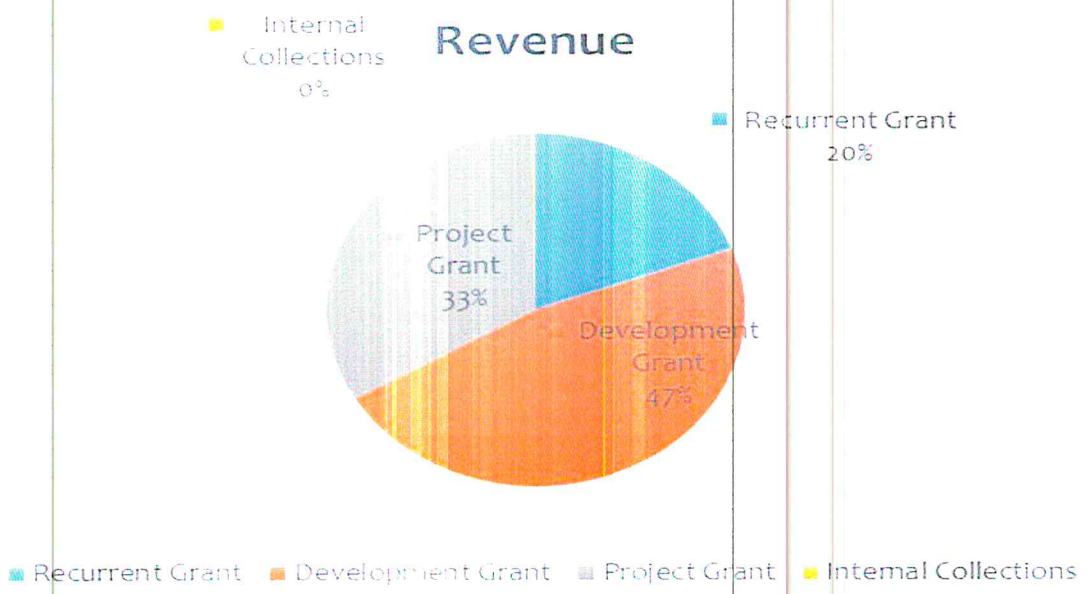
The entity's operational and financial performance

During the period under review, the Authority received a recurrent revenue of Kshs 258.6 million compared to Kshs 106.3 million received in the previous period marking a 143% increment. The Authority also received development grant amounting to Kshs 630.7 million with none received in the previous period. Development partners disbursed Kshs 442.3 million which was a 70% increment from previous period (Kshs 261.6 million in 2018-2019) through Kenya Youth Employment and Opportunities Project (KYEOP). Internally generated revenue amounted to Kshs 2.5 million compared to Kshs 1.2 million in the previous year, this was a 125% increment.

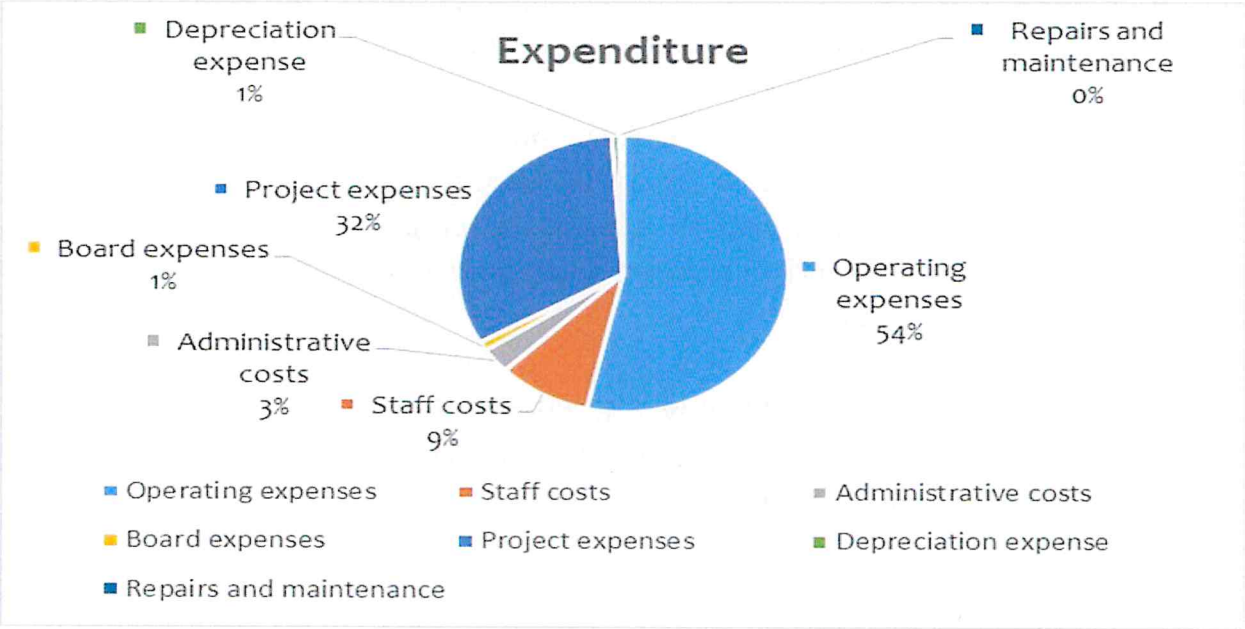
The expenses for the period grew exponentially to the same rate as revenue as the Authority continued to implement the approved Annual Work Plans, Budget and Procurement Plans both for the Government Grants and Kenya Youth Employment and Opportunities Project.

The Authority experienced delays in disbursement of quarter four recurrent grant amounting to Kshs 64.6 million. Part of the grants were received on 29th June 2020. However, the Authority was able to carry out its mandate and achieved activities as planned for.

The pie chart below shows revenue received by categorisation;



The pie chart below shows expenditure incurred during the period by categorisation;



Operating expenses accounted for 54% of the total expenses relating to refurbishment of CIDC and worksites while Project expenses accounted for 32%. Staff costs accounted for 9%, administrative cost 3% while Board expenses and depreciation expense accounted for 1% each of the total expenditure.

Entity's compliance with statutory requirements

The Authority has complied with its establishing Act, that is, MSE Act no. 55 of 2012. It has also complied with other legal requirements such as submission of statutory deductions to Kenya Revenue Authority among others and its internal policies and procedures. There are no instances of non-compliance that would lead to financial loss.

Key projects and investment decisions the entity is implementing

The Authority is implementing component II of the KYEOP, a World Bank funded project to be completed in five years whose effective date was September 1, 2016 with expected completion date of December 31, 2021. The Project total cost is US$ 150 million or equivalent Kshs 2.52 Billion. During the period, the Authority operationalized over 100 CIDCs and worksites across the Country at a total budget of Kshs 630 million, most of the works were still on going as at the end of reporting period.

The Authority is also implementing a project on construction of cold storage and processing facilities in Kisii, Nyandarua and Meru through a presidential directive issued on January 2020 at a cost of Kshs 300 million. The project was ongoing at end of reporting period.

Major risks facing the Authority

The Authority has a structure and process to help identify, assess and manage risks. All risks facing the Authority are reviewed, assessed and evaluated for an appropriate action. At the time of reporting there were no major risks facing the Authority.

Material arrears in statutory / financial obligations

During the period, there were no arrears in relation to statutory commitments. During the same period, the authority had an outstanding payable for staff gratuity and pension amounting to Kshs 18.2 million awaiting transfer to fund manager and declaration of the Authority as a public entity.

The entity's financial probity and serious governance issues

The Authority has not experienced any major financial improbity or any serious governance issues during the period under review.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Corporate Social Responsibility (CSR) is increasingly becoming an integral part of business today as it influences the long-term success of any organisation. In the process of carrying out our business, we are keen to work closely with communities and other stakeholders around us, to empower, create value and better their lives.

The Authority recognizes its obligations to act responsibly, ethically and with integrity in its dealings with staff, customers, stakeholders and the environment as a whole.

The Authority also plays an important role in the social-economic development of the country and provides one of the most prolific sources of employment, income generation, poverty reduction and development of industrial base.

The Authority as a state agency has a strong commitment to responsible business practices while balancing the interests of all our key stakeholders - our clients, our employees, and the communities in which we work.

In striving to fulfil the corporate social responsibility in the financial year, the Authority embarked on the following activities;

i. Tree planting in various CIDC's across the country.
ii. Procuring and distribution of over 50,000 masks and 150 masks to various Juakali Associations across the country to ensure their safety in response to COVID-19 mitigation measures.
iii. Participation in the Beyond zero marathon.

i. Tree planting

The President issued a directive that the attainment of 10% National tree cover be accelerated by 2022 and subsequent directives that all Government Ministries, Departments and Parastatals /Agencies (MDAs) to commit 10% of their Corporate Social Responsibility (CSR) budget to tree growing activities. In fulfilment of this directive, MSEA has been conducting tree planting exercises in our CIDCs across the country. So far, over 200 seedlings have been planted.

Other accrued benefits of this project include mitigating climate change and raising environmental awareness among the local communities around these centres.

Tree planting activity in various CIDCs.

ii. COVID-19 response.

Following the outbreak of Covid-19, the Authority set up a number of interventions to help MSEs during the pandemic. The first initiative was ensuring the safety of our MSEs operating throughout the country. The Authority procured over 50,000 masks and 150 water tanks which were distributed to various Juakali Associations across the country.

Eng. Charles Kalomba giving his speech during the flagging off ceremony at Kariobangi Centre of Excellence.

CEO Mr. Henry Rithaa speaking during the flagging off of the PPEs.

Distribution of facemasks and hand washing water tanks to various Juakali worksites.

iii. The Beyond Zero Marathon

MSEA staff participated in this year's 5th Edition of the Beyond Zero half marathon which coincided with International Women's Day. The main cause of the initiative is to create one stop health services to achieve zero maternal deaths. The Initiative also focuses on raising awareness and funds for neglected health challenges such as fistulae on children living with disabilities, multiple HIV risks faced by young people, breast, cervical and prostate cancers and eye care for the elderly.

MSEA staff during this year's Beyond Zero Marathon.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2020 which show the state of the *Authority's* affairs.

Principal activities

The principal activities of the Authority are to Promote, Develop and Regulate Micro and Small Enterprises Sector.

Results

The results of the Authority for the year ended June 30, 2020 are set out on page 1 to page 5.

Directors

The directors who held office during the year and to the date of this report are set out on in earlier sections of the report.

Surplus remission

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. However, the entity did not make any surplus during the financial year and hence no remittance to the Consolidated Fund.

Auditors

The Auditor General is responsible for the statutory audit of the *Authority* in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015. The Auditor General continues in office in accordance with the constitution of Kenya.

By Order of the Board

.....	29-06-2021
Charles Waithaka	**Date**
Chairman of the Board	**Nairobi**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and the Micro and Small Enterprises Act, 2012 section 44(1) require the Directors to prepare financial statements in respect of the Authority, which give a true and fair view of the state of affairs of the Authority at the end of the financial period and the operating results of the Authority for that period. The Directors are also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy the financial position of the Authority. The Directors are also responsible for safeguarding the assets of the Authority.

The Directors are responsible for the preparation and presentation of the *Authority's* financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *Authority's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and the State Corporations Act. The Directors are of the opinion that the *Authority's* financial statements give a true and fair view of the state of *Authority's* transactions during the financial year ended June 30, 2020, and of the *Authority's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *Authority*, which have been relied upon in the preparation of the *Authority's* financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the *Authority* 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 *Authority's* financial statements were approved by the Board on **28th September 2020** and signed on its behalf by:

.....	.....
Charles Waithaka	**Henry Rithaa**
Chairman of the Board	**Director General / CEO**

REPUBLIC OF KENYA

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON MICRO AND SMALL ENTERPRISES AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Micro and Small Enterprises Authority set out on pages 1 to 24, which comprise the statement of financial position as at 30 June, 2020, and the 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 Micro and Small Enterprises Authority as at 30 June, 2020 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 Micro and Small Enterprises Authority Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Property, Plant and Equipment

The statement of financial position reflects a property, plant and equipment balance of Kshs.83,075,980 which as reported previously, excludes undetermined value of properties in one-hundred and fifty-four (154) Constituency Industrial Development Centers (CIDCs). Further, additional non-current assets of undetermined value were held by the Authority for transfer to various CIDCs. In addition, the Management had not valued all its non-current assets.

Consequently, the accuracy and completeness of the reported balance of Kshs.83,075,980 for property, plant and equipment as at 30 June, 2020 could not be confirmed.

2. Long Outstanding Imprest

The statement of financial position reflects receivables from exchange transactions of Kshs.22,164,983 which as disclosed at Note 16 to the financial statements, comprised

the outstanding imprest balance as at 30 June, 2020 of which Kshs.6,145,690 had been outstanding for more than one financial year. The imprests had been issued to staff who had been seconded to the Authority but who have since been deployed to other Ministries. Although Management explained that they were making follow up with the individual officers and the concerned Ministries to have the amounts recovered, the imprests were still outstanding as at 30 June, 2020.

Consequently, full recoverability of the reported receivables balance could not be confirmed. In addition, the Management was in breach of Regulation 93(5) of Public Finance Management Regulations, 2015 which stipulates that a holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Micro and Small Enterprises Authority 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.

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 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 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 control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Authority's ability to sustain 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 terminate the Authority 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 are responsible for overseeing the Authority's financial reporting process, reviewing the effectiveness of how the Authority 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

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 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 sustainability of services, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability 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 Authority to cease 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 Authority 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.

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

08 February, 2020

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2019/2020 Kshs	2018/2019 Kshs
Revenue from non-exchange transactions			
Government grants	6	779,100,734	106,360,871
Development partners	7	442,346,058	261,662,606
		1,221,446,792	368,023,477
Revenue from exchange transactions			
Internally generated revenue	8	2,725,470	1,265,450
Total revenue		**1,224,172,262**	**369,288,927**
Expenditure			
Operating expenses	9	635,331,104	78,372,353
Staff costs	10	119,855,716	15,423,375
Board expenses	11	12,869,651	13,263,676
Project expenses	12	424,007,884	278,538,403
Depreciation expense	13	18,319,099	10,595,774
Repairs and Maintenance	14	4,472,439	3,955,209
Total Expenditure		**1,214,855,892**	**400,148,789**
Surplus / (deficit) for the period		**9,316,371**	**(30,859,862)**

The notes set out on pages 6 to 18 form an integral part of these Financial Statements

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

	Notes	2019/2020 Kshs	2018/2019 Kshs
ASSETS			
Current assets			
Cash and cash equivalents	15	829,097,553	41,792,040
Receivable from exchange transactions	16	22,164,983	11,178,782
Prepayments	16	16,700,772	-
Consumable stocks	17	2,575,271	-
		870,538,579	52,970,822
Non-current assets			
Property, plant and equipment	18	83,075,980	43,047,776
		83,075,980	43,047,776
Total assets		953,614,559	96,018,598
LIABILITIES			
Current liabilities			
Payables from exchange transactions	19	35,581,747	45,769,330
Provisions	20	408,871,536	450,000
Total liabilities		**444,453,284**	**46,219,330**
Net assets		**509,161,275**	**49,799,268**
Equity			
Capital fund		562,801,770	112,756,133
Accumulated surplus		(53,640,495)	(62,956,865)
Total net asset and liabilities		**509,161,275**	**49,799,268**

The Financial Statements set out on pages 1 to 5 were signed on behalf of the Board of Directors by:

.....	.....	.....
Charles Waithaka	**Henry Rithaa**	**Festus Musyoki**
Chairman	**Director General / CEO**	**Head of Finance**
		ICPAK No.9775

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2020

	Surplus Reserve Kshs	Capital Grants / Reserves Kshs	Total Kshs
At 1st July 2018	(32,741,722)	112,377,073	79,635,351
Surplus/(Deficit) for the period	(30,859,862)	-	(30,859,862)
Capital acquisition		379,060	379,060
Prior period adjustment	644,719		644,719
At 30th June 2019	**(62,956,865)**	**112,756,133**	**49,799,268**
At 1st July 2019	**(62,956,865)**	**112,756,133**	**49,799,268**
Surplus/(Deficit) for the period	9,316,371	-	9,316,371
Capital grant		410,267,266	410,267,266
Capital acquisition		39,778,371	39,778,371
At 30th June 2020	**(53,640,495)**	**562,801,770**	**509,161,275**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2019/2020 Kshs	2018/2019 Kshs
Cash flows from operating activities:			
Surplus for the period		**9,316,371**	**(30,859,862)**
Adjustments for:			
Depreciation & Amortization	18	18,319,099	10,595,774
Prior period adjustment	21	-	573,778
Operating profit before working capital changes		**27,635,469**	**(19,690,310)**
Changes in operating assets and liabilities:			
(Increase) / decrease in receivable		(10,986,201)	(780,030)
(Increase) / decrease in prepayments		(16,700,772)	-
Increase / (decrease) in payables		(10,187,582)	(8,751,821)
Increase / (decrease) in provisions		408,421,536	450,000
(Increase) / decrease in consumables		(2,575,271)	-
Cash generated from operations		**395,607,179**	**(28,772,161)**
Net cash from operating activities		**395,607,179**	**(28,772,161)**
Cash flows from investing activities			
Purchase of property, plant and equipment	18	(58,347,303)	(379,060)
Net cash used in investing activities		**(58,347,303)**	**(379,060)**
Cash flows from financing activities			
Capital fund (Development grant from government)		450,045,637	-
Net cash used in financing activities		**450,045,637**	**-**
Net increase (decrease) in cash and cash equivalents		787,305,513	(29,151,221)
Cash and cash equivalents at start of year		**41,792,040**	**70,943,261**
Cash and cash equivalents at end of year		**829,097,553**	**41,792,040**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2020

Category	Original budget 2019-2020	Adjustments 2019-2020	Final Budget 2019-2020	Actual on comparable basis 2019-2020	Performance difference 2019-2020	Variance 2019-20
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs	%
Recurrent grant	258,600,000	-	258,600,000	258,600,000	-	0
Devt grant - CIDC	352,000,000	278,768,000	630,768,000	630,768,000	-	0
Devt Grant - Cold Storage	-	300,000,000	300,000,000	300,000,000	-	0
Development partner	604,000,000	-	604,000,000	442,346,058	161,653,942	27
Fees and charges	2,500,000	-	2,500,000	2,725,470	(225,470)	-9
Total revenue	**1,217,100,000**	**578,768,000**	**1,795,868,000**	**1,634,439,528**	**161,428,472**	**9**
Expenditure						
Operating expenses	372,300,000	222,639,807	594,939,807	595,636,102	(696,295)	0
Staff costs	214,140,000	(89,700,867)	124,439,133	119,855,716	4,583,417	4
Administrative costs	16,100,000	22,600,200	38,700,200	39,695,001	(994,801)	-3
Board expenses	6,960,000	7,700,867	14,660,867	12,869,651	1,791,216	12
Project expenses	604,000,000	-	604,000,000	424,007,884	179,992,116	30
Depreciation expense	-	-	-	18,319,099	(18,319,099)	0
Repairs & Maintenance	3,600,000	1,200,000	4,800,000	4,472,439	327,561	7
Total expenditure	**1,217,100,000**	**164,440,007**	**1,381,540,007**	**1,214,855,892**	**166,684,115**	**12**
Balance before adjustments	-	**414,327,993**	**414,327,993**	**419,583,636**	-	
Cold Storage Development Grant charged to capital fund		292,804,262	292,804,262	292,804,262		
CIDC Development Grant charged to capital fund		117,463,004	117,463,004	117,463,004		
Surplus as per statement of financial performance	-	-	-	**9,316,371**		

Notes on material variance

i. Development partner – the variance of 27% relates to World Bank grants not received as expected during the period under review. The project activities were slowed down by COVID 19 movement restriction measures which negatively affected the project performance.

ii. Project expenses – the variance of 30% was due to slow down on KYEOP activities due to COVID 19 pandemic. Most of the project activities are field based and this affected the project absorption rate.

iii. Budget Adjustments - During the period the Authority received additional Kshs 278.7 million development grant for construction of CIDCs and further Kshs 300 million development grant

for construction of 3 cold facilities through a presidential directive. The Authority also re-organised its budget through reallocation of funds so as to achieve optimal resource utilisation.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Micro and Small Enterprises Authority is established by and derives its authority and accountability from Micro and Small Enterprise Act No. 55 of 2012. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is to Regulate, Promote and Develop the Micro and Small Enterprise Sector in Kenya.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION - IPSAS 1

The financial statements have been prepared on a historical cost basis except where stated otherwise. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the *entity's* accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Notes.
The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the *Authority*.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. ADOPTION OF NEW AND REVISED STANDARDS

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2020

Standard	Impact
IPSAS 40: Public Sector Combinations	**Applicable: 1st January 2019** 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 are covered purely under Public Sector combinations as amalgamations. The standard did not have impact on the Authority financial reporting.

ii. **New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020**

Standard	Effective date and impact:
IPSAS 41: Financial Instruments	**Applicable: 1st January 2022:** The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by: • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy. The standard did not have impact on the Authority financial reporting.
IPSAS 42: Social Benefits	**Applicable: 1st January 2022** The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess: (a) The nature of such social benefits provided by the entity; (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows. The standard did not have impact on the Authority financial reporting.
Amendments to Other IPSAS resulting from IPSAS 41,	**Applicable: 1st January 2022:** a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued. b) Amendments to IPSAS 30, regarding illustrative examples on hedging

Standard	Effective date and impact:
Financial Instruments	and credit risk which were inadvertently omitted when IPSAS 41 was issued. c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.
Other Improvements to IPSAS	**Applicable: 1st January 2021:** a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment. Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved c) IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets. Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets. d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs). Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard

iii. Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2020.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

i) Revenue from non-exchange transactions – IPSAS 23

Fees, taxes and fines

The authority recognizes revenues from fees, taxes and fines 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 authority and the fair value of the asset can be measured reliably.

The Authority currently collects revenue from services it renders to MSEs at its Kariobangi Centre of Excellence. This includes service fee on use of common user machine facility, incubation services among other.

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 authority and can be measured reliably.

Development partner funds

The donor development funds are recognised by the Authority when received.

ii) **Revenue from exchange transactions – IPSAS 9**

Rendering of services

The entity recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

b) **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 entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

c) **Taxes – IAS 12**

Withholding Tax

Withholding Tax relates to Value Added Tax (VAT) held by the Authority at 6% from the suppliers, and later submitted to Kenya Revenue Authority (KRA) by 20th of every month. The tax is recognized as a liability, and offset in books of accounts when remitted to KRA.

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 entity 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.

Depreciation

Depreciation is calculated on a reducing balance method to write off property, plant and equipment over their estimated useful lives. The annual rates used are as here below;

Category	Percentage
Land	nil
Building	10
Furniture and fittings	12.5
Computer	33.3
Software	8
Motor vehicle	25
Office equipment	12.5

Apportioned depreciation will apply to assets bought/acquired during the year of acquisition. Full depreciation will be applied to assets disposed in the year of disposal.

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 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 assessed as either finite or indefinite.

f) Research and development costs

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

i) The technical feasibility of completing the asset so that the asset will be available for use or sale

ii) Its intention to complete and its ability to use or sell the asset

iii) How the asset will generate future economic benefits or service potential

iv) The availability of resources to complete the asset

v) The ability to measure reliably the expenditure during development.

g) Financial instruments

Financial assets

Initial recognition and measurement

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

Loans and receivables

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

Impairment of financial assets

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

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

Financial liabilities
Initial recognition and measurement
Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Authority determines the classification of its financial liabilities at initial recognition.
All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are

recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

h) Inventories – IPSAS 12

Inventories of consumable nature are stated at the lower of cost and net realizable value. Cost comprises the purchase price and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs of selling the item. Consumable stock balance is disclosed as part of current assets in the financial statements.

i) Provisions – IPSAS 19

Provisions are recognized when the Authority 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 Authority 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.

The Authority has recognized provisions of refurbishment of CIDC's during the period amounting to Kshs 408.4 million since a contractual obligation existed as at the end of reporting period.

Contingent liabilities

The Authority 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.

The Authority discloses contingent liability with relation to disputed historical rent with Tourism Finance Corporation dating back to the periods before the Authority was incorporated when the Authority used to be a department under State Department for Labour.

Contingent assets

The Authority 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 Authority in the notes to the financial statements. Contingent assets are assessed continually to ensure that

developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

j) Nature and purpose of reserves

The Authority creates and maintains reserves in terms of specific requirements as disclosed in statement of changes in net assets.

k) Changes in accounting policies and estimates – IPSAS 3

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

l) Employee benefits – IPSAS 25

Retirement benefit plans

The Authority provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable. The Authority contributes to a defined contribution staff retirement benefit scheme for its permanent and pensionable employees. The assets of this scheme are held in a separate trustee administered fund. The company's contributions to the defined contribution retirement benefit scheme are charged to the income statement in the year to which they relate. The scheme is funded by contributions from both the employees and employer. Benefits are paid to retiring staff in accordance with the scheme rules.

m) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

n) Related parties

The Authority regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Authority, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers.

o) Service concession arrangements

The Authority analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Authority recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Authority also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

p) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

q) Comparative figures

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

r) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2020.

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

Estimates and assumptions – IPSAS 1.140

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 Authority 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 the control of the Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

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:

i) The condition of the asset based on the assessment of experts employed by the Authority
ii) The nature of the asset, its susceptibility and adaptability to changes in technology and processes
iii) The nature of the processes in which the asset is deployed
iv) Availability of funding to replace the asset
v) Changes in the market in relation to the asset

Provisions

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.

		2019/2020 Kshs	2018/2019 Kshs
6	**Government grant**		
	Government grant - recurrent	258,600,000	106,360,871
	Government grant - development*	520,500,734	-
		779,100,734	106,360,871

*To achieve prudence and comparability in development grant reporting; the grant received during the period has been adjusted in line with accrual and matching concept of accounting. Grants component relating to capital fund has been charged accordingly as per the schedule below;

Grant Category	Amount recognized in statement of financial performance	Amount recognized in capital fund	Total received grant during the year
Cold Storage	7,195,738	292,804,262	300,000,000
CIDC & Worksites	513,304,997	117,463,004	630,768,000
Total	**520,500,734**	**410,267,266**	**930,768,000**

7	**Development partner**		
	IDA-KYEOP World Bank	442,346,058	261,662,606
		442,346,058	261,662,606
8	**Internally generated revenue**		
	Fees and charges from services rendered	2,725,470	1,265,450

9	**Operating Expenses**		
	a) Operating costs		
	Communication supplies and services	1,394,244	4,932,376
	Domestic travel and subsistence	18,837,360	14,685,756
	Foreign travel and subsistence	4,355,974	2,998,737
	Printing, advertising and information services	4,252,303	644,379
	Trade shows and exhibitions	11,757,322	5,829,292
	MSEs regional and international	20,376,267	5,658,734
	MSE marketing	150,000	-
	Hospitality supplies and services	10,068,377	5,871,179
	MSE coordination and harmonisation	3,654,021	1,135,089
	Training of MSEs	289,500	785,000
	Worksites and CIDC	513,304,997	4,203,516
	Cold storage	7,195,738	-
	Legal expenses	-	-
		595,636,102	46,744,058
	b) Administrative costs		
	Utilities (water and electricity)	53,231	798,946
	Rent - non residential	13,643,234	12,888,515
	Office general supplies and services	3,008,588	8,807,323
	Fuel and lubricants	819,901	1,922,652
	Contracted guards and cleaning services	13,418,460	5,359,721
	Bank charges	447,890	214,003
	Provision for audit fee	450,000	450,000
	Recruitment expense	6,392,424	-
	Motor vehicle insurance	754,051	1,187,135
	provision for obsolete stock	707,222	-
		39,695,001	31,628,295
10	**Staff costs**		
	Personnel emoluments	118,893,010	13,701,032
	Training expenses	962,706	1,722,343
		119,855,716	15,423,375

		2019/2020 Kshs	2018/2019 Kshs
11	**Board Expenses**		
	Sitting allowance	5,682,809	4,480,599
	Subsistence allowance and travel expenses	1,970,474	5,913,545
	Honoraria	960,000	846,000
	Transport reimbursement/Mileage	1,719,218	129,351
	Board Training	617,000	495,200
	Medical insurance	1,920,150	1,398,981
		12,869,651	13,263,676
12	**Project expenses**		
	KYEOP Project expenses	424,007,884	278,538,403

13	**Depreciation expense**		
	Furniture & fittings	1,116,178	1,010,274
	Computer & accessories	7,178,913	4,404,148
	Motor vehicles	6,858,811	2,278,781
	Office equipment	3,165,197	2,902,570
		18,319,099	10,595,773
14	**Repairs & maintenance**		
	Motor vehicles	4,173,217	3,258,669
	Equipments	299,222	210,540
	Computers	-	486,000
		4,472,439	3,955,209
15	**Cash and cash equivalent**		
	National Bank - recurrent account	7,086,770	814,938
	KCB - development account	801,174,371	636,893
	KCB - project account	20,836,412	40,340,209
	Cash in Hand	-	-
		829,097,553	41,792,040
16	**Receivable from non-exchange transactions**		
	Outstanding Imprest	22,164,983	11,178,782
	Prepayments	16,700,772	-
		38,865,755	11,178,782
17	**Inventory**		
	Consumable stocks	2,575,271	-

18 **Property, Plant and Equipment**

	Office Equip	Computers	Vehicle	Fittings	CWIP Cold Storage	Totals
	Kshs	Kshs	Kshs	Kshs		Kshs
	12.5%	33.3%	25%	12.5%	0.0%	
COST						
1st July 2018	34,733,131	34,192,900	41,058,514	14,778,864	-	124,763,409
Additions	-	379,060	-	-	-	379,060
Disposal	-	-	-	-	-	-
30th June 2019	**34,733,131**	**34,571,960**	**41,058,514**	**14,778,864**	**-**	**125,142,469**
Additions	5,483,056	12,786,775	20,598,900	2,170,000	17,308,572	58,347,303
Disposal	-	-	-	-	-	-
30th June 2020	**40,216,187**	**47,358,735**	**61,657,414**	**16,948,864**	**17,308,572**	**183,489,772**
ACCUMULATED DEPRECIATION						
1st July 2018	11,512,571	21,346,290	31,943,390	6,696,669	-	71,498,920
Charge for the Year	2,902,570	4,404,148	2,278,781	1,010,274	-	10,595,773
30th June 2019	**14,415,141**	**25,750,438**	**34,222,171**	**7,706,944**	**-**	**82,094,693**
Charge for the Year	3,165,197	7,178,913	6,858,811	1,116,178	-	18,319,099
30th June 2020	**17,580,338**	**32,929,351**	**41,080,982**	**8,823,121**	**-**	**100,413,792**
NET BOOK VALUE						
30th June 2019	**20,317,990**	**8,821,522**	**6,836,343**	**7,071,920**	**-**	**43,047,776**
30th June 2020	**22,635,849**	**14,429,384**	**20,576,432**	**8,125,743**	**17,308,572**	**83,075,980**

Notes to the Property Plant and Equipment

i. The Property Plant and Equipment (PPE) does not include valuation for land and Constituency Industrial Development Centres the Authority owns across the Country. The Authority is in the process of valuing its properties to have an updated PPE.

ii. Capital works in progress Kshs 17,308,572 relates to certified works in relation to construction of Cold Storage facility at Kisii County.

		Kshs	Kshs
19	**Payables from exchange transactions**		
	Trade payables	32,456,352	45,769,330
	Unspent donor funds	999,486	-
	Accruals	2,125,909	-
		35,581,747	45,769,330
20	**Provisions**		
	Audit fee	450,000	450,000
	Refurbishment of CIDC & Worksites	408,421,536	-
		408,871,536	450,000

21 Construction of cold storage facility

Through a presidential directive in January 2020, the Authority was allocated Kshs 300 million in supplementary budget II of 2019/2020 financial year to cater for construction and equipping of three cold storage facility in Nyandarua, Kisii and Meru. Each facility is expected to cost Kshs 100 million. The funds were disbursed to the Authority's KCB development account. As at the end of the period, Kshs 24,504,310 had been spent on the project leaving unspent cash balance of Kshs 275,495,690 which is part of the cash and cash equivalent reported as at the end of the financial year.

22 Capital Commitments

The Authority had capital commitment amounting to Kshs 275,495,690 as at the end of reporting period with relation to construction of cold storage facilities as per note 21.

22 Financial Risk Management

The Authority's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Authority'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 Authority does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

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

(i) Credit risk

The Authority has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience

and their assessment of the current economic environment. The amount that best represents the Authority's maximum exposure to credit risk as at 30th June is made up as follows;

Description	2020 Kshs	2019 Kshs
Bank balances	829,097,553	41,792,040
Receivable from exchange transactions	22,164,983	11,178,782
	851,262,536	52,970,822

(ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board, who have built an appropriate liquidity risk management framework for the management of the Authority's short, medium and long-term funding and liquidity management requirements. The Authority manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The Authority's approach when managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Authority's reputation.

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the Authority 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 Authority's income or the value of its holding of financial instruments. 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.

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

Currency Risk

The Authority's transactions are denominated in Kenya Shillings and in cases of foreign currency payments, sufficient negotiations are carried out to obtain better foreign currency exchange rates.

Capital Risk Management

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

	2020 Kshs	2019 Kshs
Accumulated fund	(53,640,495)	(62,956,865)
Capital reserve	562,801,770	112,756,133
Total funds	**509,161,275**	**49,799,268**

Total borrowings	-	-
Cash and bank balances	829,097,553	41,792,040
Gearing	0%	0%

22. Prior year adjustments – IPSAS 3

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that: (a) Was available when financial statements for those periods were authorized for issue; and (b) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts.

There were no prior year adjustments during the period.

23. Related Party Disclosure

Entities and other parties related to the entity 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 entity is related to;

i) The National Government
ii) The Ministry of Trade and Industrialization
iii) Board Members
iv) Key management

The Authority has 4 key management personnel. The managers participate in making key management decisions of the Authority and reports to Board of Management for guidance and the Ministry of Trade and Industrialization for policy direction.

24. Events after the reporting period

There were no material adjusting and non- adjusting events after the reporting period.

25. Ultimate and Holding Entity

The Authority is a Semi- Autonomous Government Agency under the Ministry of Trade and Industrialization. Its ultimate parent is the Government of Kenya.

26. Currency

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

APPENDIX I: INTER-ENTITY TRANSFERS

	ENTITY NAME:	Micro and Small Enterprises Authority		
	Break down of Transfers from the State Department of Industrialization			
	Financial Year			
	2019/2020			
a.	**Recurrent Grants**			
		Bank Statement Date	**Amount (KShs)**	**Financial Year to which the amounts relate**
		01.08.2019	64,650,000	2019/2020
		18.10.2019	64,650,000	2019/2020
		30.01.2020	64,650,000	2019/2020
		05.05.2020	21,550,000	2019/2020
		02.06.2020	21,550,000	2019/2020
		29.06.2020	21,550,000	2019/2020
		Total	**258,600,000**	
b.	**Development Grants**			
		Bank Statement Date	**Amount (KShs)**	**Financial Year to which the amounts relate**
		02.10.2019	176,000,000	2019/2020
		04.02.2020	300,000,000	2019/2020
		31.03.2020	454,768,000	2019/2020
		Total	**930,768,000**	
	Grants received on 04.02.2020 Kshs 300,000,000 relates to construction of cold storage facility			
c.	**Direct Payments**			
		Bank Statement Date	**Amount (KShs)**	**Financial Year to which the amounts relate**
	No direct payment undertaken during the reporting period			
d.	**Donor Receipts**			
		Bank Statement Date	**Amount (KShs)**	**Financial Year to which the amounts relate**
		18.09.2019	136,661,441.75	2019/2020
		28.01.2020	108,716,177.60	2019/2020
		31.03.2020	111,776,438.65	2019/2020
		25.06.2020	85,192,000	2019/2020
		Total	**442,346,058**	

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

	ENTITY NAME:	Micro and Small Enterprises Authority		
	Break down of Transfers from the State Department of Industry			
	Financial Year			
	2018/2019			
a.	**Recurrent Grants**			
		Bank Statement Date	**Amount (KShs)**	**Financial Year to which the amounts relate**
		19.09.2018	27,161,100	2018/2019
		24.12.2018	25,531,434	2018/2019
		19.02.2019	27,161,100	2018/2019
		13.05.2019	26,507,234	2018/2019
		Total	**106,360,868**	
b.	**Development Grants**			
		Bank Statement Date	**Amount (KShs)**	**Financial Year to which the amounts relate**
	No development grant received during the reporting period			
c.	**Direct Payments**			
		Bank Statement Date	**Amount (KShs)**	**Financial Year to which the amounts relate**
	No direct payment undertaken during the reporting period			
d.	**Donor Receipts**			
		Bank Statement Date	**Amount (KShs)**	**Financial Year to which the amounts relate**
		30.11.2018	153,506,930	2018/2019
		07.12.2018	37,448,676	2018/2019
		12.06.2019	70,707,000	2018/2019
		Total	**261,662,606**	

APPENDIX II: 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.

Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
As reported previously, the property, plant and equipment balance of Kshs 43,047,776 as at 30 June 2019 excludes undetermined value of properties in 154 Constituency Industrial Development Centers. Further, some other non-current assets of undetermined value are held by the Authority for transfer to various Constituency Industrial Development Centers (CIDCs). Also, the management has not taken stock of all its land, buildings and other properties and valued them to establish their accounting treatment in the Authority's books of account.	Management is in the process of valuing the 154 CIDC handed over by the Ministry in January 2015 in the 2020/21 financial period. With the revalued amounts, the authority will be in a good position to adjust the books and correctly state the figure for property, plant and equipment as required by International Public Sector Accounting Standards.	Accounting Officer	Not Resolved	30th June 2021