

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
KENYA BUREAU OF STANDARDS**

**FOR THE YEAR ENDED  
30 JUNE 2018**

KENYA BUREAU OF STANDARDS  
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

KENYA BUREAU OF STANDARDS



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KENYA BUREAU OF STANDARDS

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REVISED ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING  
JUNE 30, 2018

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

## **LIST OF ABBREVIATIONS**

AGPO -	Access to Government Procurement Opportunities
BSI	British Standards Institution
CEO	Chief Executive Officer
CMC	Calibration and Measurement Capability
COMESA	Common Market for Eastern and Southern Africa
CSR	Corporate Social Responsibility
EA	East Africa
EAC	East African Community
EHS	Environment, Health & Safety
FKE	Federation of Kenya Employers
FY	Financial Year
IFC	International Finance Corporation
ISO	International Organization for Standardization
KEBS	Kenya Bureau of Standards
KENAS	Kenya Accreditation Services
KIPPRA	Kenya Institute for Public Policy Research and Analysis
MD	Managing Director
NQI	National Quality Institute
NSC	National Standards Council
OSHA	Occupational Safety and Health Act
PVoC	Pre-Export Verification of Conformity to standards
RVA	Raad Voor Accreditatie (Dutch Accreditation Council)
SCAC	State Corporation Advisory Committee
SMCA	Standards, Metrology and Conformity Assessment
SME	Small and Medium Enterprise
SO	Strategic Objective
TBT	Technical Barriers to Trade
TQM	Total Quality Management
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
WTO	World Trade Organization

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**KEBS KEY INFORMATION AND MANAGEMENT**

**a) Background information**

The Kenya Bureau of Standards (KEBS) is a state corporation established under the Standards Act (Cap.496) of the Laws of Kenya in July 1974. The Standards Act defines the function of KEBS and provides for its management and control. KEBS is domiciled in Kenya.

The Kenya Bureau of Standards (KEBS) has remained the premier government agency for the provision of Standards, Metrology and Conformity Assessment (SMCA) services since its inception in 1974. Over that period its main activities have grown from the development of standards and quality control for a limited number of locally made products in the 1970s to the provision of more comprehensive Standards development, Metrology, Conformity Assessment, Training and Certification services. With the re-establishment of the East African Community (EAC) and Common Market for Eastern and Southern Africa (COMESA), KEBS activities now include participation in the development and implementation of SMCA activities at the regional level where it participates in harmonization of standards, measurements and conformity assessment regimes for regional integration. KEBS operates the National Enquiry Point in support of the World Trade Organization (WTO) Agreement on Technical Barriers to Trade (TBT).

**KEBS Structure**

KEBS is structured into six functional Directorates namely: -

- Finance and Strategy
- Human Resource and Administration
- Metrology and Testing
- Market Surveillance
- Quality Assurance and Inspection
- Standards Development

KEBS operates regional offices in Mombasa, Kisumu, Eldoret, Nakuru, Nyeri and Garissa to bring services closer to the public.

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**b) Principle Activities**

**KEBS Mandate**

The functions of KEBS as mandated by the Standards Act, Chapter 496 of the Laws of Kenya are *inter alia*:

To promote standardization in industry and commerce;

- i. To make arrangements or provide facilities for the testing and calibration of precision instruments, gauges and scientific apparatus, for the determination of their degree of accuracy by comparison with standards approved by the Minister on the recommendation of the Council, and for the issue of certificates in regard thereto
- ii. To make arrangements or provide facilities for the examination and testing of commodities and any material or substance from or with which and the manner in which they may be manufactured, produced, processed or treated;
- iii. To control, in accordance with the provisions of this Act, the use of standardization marks and distinctive mark
- iv. To prepare, frame, modify or amend specifications and codes of practice;
- v. To encourage or undertake educational work in connection with standardization
- vi. To assist the Government or any local authority or other public body or any other person in the preparation and framing of any specifications or codes of practice
- vii. To provide for co-operation with the Government or the representatives of any industry or with any local authority or other public body or any other person, with a view to securing the adoption and practical application of standards
- viii. To provide for the testing at the request of the Minister, and on behalf of the Government, of locally manufactured and imported commodities with a view to determining whether such commodities comply with the provisions of this Act or any other law dealing with standards of quality or description

Currently, KEBS is implementing a five-year strategic plan 2017-2022 whose theme is "Together We Deliver"

KEBS vision, mission, motto and the strategic objectives are presented below:

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Vision	To be a global leader in standards based solutions that deliver quality and confidence.
Mission	To provide standards based solutions that promote innovation, trade and quality life.
Core Values	Integrity, customer focus, excellence and sustainability
Motto	Standards for quality life

## STRATEGIC OBJECTIVES



Enhance delivery of our mandate by improving operational efficiency by 7% annually.



Improve customer satisfaction by 0.5% annually, by providing Standards, Metrology and Conformity Assessment (SMCA) solutions that support Vision 2030 and Sustainable Development Goals (SDGs).



Attain international recognition and sustain leadership in Standards, Metrology and Conformity Assessment (SMCA) through institutional strengthening and alignment to international best practices



Provide Standards, Metrology and Conformity Assessment (SMCA) solutions that promote innovation.

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**c) Key Management**

KEBS day-to-day management is under the following:

- i. Managing Director,
- ii. Directors, and
- iii. Heads of Departments/Regional Managers.

**d) Fiduciary Management**

The key management personnel who held office during FY ended 30<sup>th</sup> June 2018 and who had direct fiduciary responsibility were:

**Table 1: Key Management Personnel**

No.	Designation	Name
i.	Managing Director	Charles Ongwae
ii.	Ag. Managing Director (W.e.f. 25 <sup>th</sup> June 2018)	Dr. Moses Ikiara
iii.	Director Finance & Strategy	Mohammed Adan
iv.	Director Human Resource & Communication	Chris Kibett
v.	Ag. Director Standards Development & Trade	Samson Ombok
vi.	Director Quality Assurance & Inspection	Eric Chesire
vii.	Ag. Director Quality Assurance & Inspection(W.e.f. 26 <sup>th</sup> June 2018)	Bernard Nguyo
viii.	Ag. Director Market Surveillance	Raymond Michuki
ix.	Director Metrology & Testing Services	Dr. Henry Kibet Rotich
x.	Head of Legal Department	Maria Goretti Nyariki
xi.	Head of Finance	CPA Anne Wanjala
xii.	Head of Audit & Risk	CPA Lincoln Nyamai
xiii.	Head of Procurement	Dr. John Ngeno

**e) Fiduciary Oversight Arrangements**

KEBS is overseen by the National Standards Council (NSC). The NSC has a functional structure that is responsible for the dynamic growth witnessed in the period under review. In discharging its duties, the NSC delegates the decision making process to various NSC committees. The deliberations and resolutions of the NSC are implemented by the management.

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During the financial year ended 30<sup>th</sup> June 2018, the NSC consisted of 14 members including a non-executive chairman and the managing director. The NSC had 6 committees whose members and mandate are as listed below:

Figure 2: NSC Committee Membership

NSC COMMITTEES MEMBERSHIP					
STANDARDS APPROVAL COMMITTEE	TECHNICAL COMMITTEE	PERMIT APPROVAL COMMITTEE	AUDIT COMMITTEE	FINANCE COMMITTEE	STAFF AND GENERAL PURPOSE COMMITTEE
1. Gladys N. Maingi 2. Wisdom Mwamburi 3. Mary W. Matu 4. Mboche Waithaka 5. Hon. Mohammed Ali 6. Eric W. Mungai 7. Joseph Mbeva 8. Fouzia Abdirahman 9. Nazir G. Yusuf 10. John Njera 11. Patrick Musila 12. John Kisegu - (in attendance) 13. Charles Ongwae	1. Fouzia Abdirahman 2. Mboche Waithaka 3. Nazir G. Yusuf 4. Joseph Mbeva 5. Mary W. Matu 6. Hon. Mohammed Ali 7. John Njera 8. John Kisegu - (in attendance) 9. Charles Ongwae	1. Charles Ongwae 2. Hon. Mohammed Ali 3. Mboche Waithaka 4. Eric W. Mungai 5. Wisdom Mwamburi 6. Joseph Mbeva 7. Gladys N. Maingi 8. John Njera 9. Patrick Musila 10. John Kisegu - (in attendance)	1. Eric W. Mungai 2. Hon. Mohammed Ali 3. Gladys Maingi 4. Nazir G. Yusuf 5. John Njera 6. Mboche Waithaka 7. John Kisegu - (in attendance)	1. Wisdom Mwamburi 2. Fouzia Abdirahman 3. Joseph Mbeva 4. Patrick Musila 5. Mary W. Matu 6. Charles Ongwae	1. Hon. Mohammed Ali 2. Wisdom Mwamburi 3. Gladys Maingi 4. Fouzia Abdirahman 5. Nazir G. Yusuf 6. Eric Mungai 7. Joseph Mbeva 8. Patrick Musila 9. Mary W. Wanja 10. Charles Ongwae 11. John Kisegu - (in attendance)

Figure 3: NSC Committee Roles

NSC COMMITTEES ROLES					
STANDARDS APPROVAL COMMITTEE	PERMIT APPROVAL COMMITTEE	TECHNICAL COMMITTEE	FINANCE COMMITTEE	AUDIT COMMITTEE	STAFF & GENERAL COMMITTEE
<ul style="list-style-type: none"> <li>Approval of standards with the provisions of the Standards Act</li> <li>Approval of policies and strategies that enhance standards development and applicability in the economy.</li> </ul>	<ul style="list-style-type: none"> <li>Administration of the standardization mark scheme in accordance with provisions of standards Act</li> <li>Approval of permits presented.</li> <li>Approval of policy on the administration of standardization mark scheme.</li> </ul>	<ul style="list-style-type: none"> <li>Receive and review reports from Metrology and Testing, Quality Assurance and Inspection divisions and make recommendations to the NSC for approval</li> <li>Review capital projects for implementation.</li> </ul>	<ul style="list-style-type: none"> <li>Assist the NSC in overseeing financial policy and procedures formulation, review and</li> <li>Review the institution's budgets and recommend to the NSC for approval</li> <li>Review the quarterly and the annual financial statements and recommend to the NSC for approval.</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening the independence, integrity and effectiveness of audit function</li> <li>Reviewing issues raised by both the internal and external auditors.</li> <li>Advise on risk identification, mitigation measures and the effectiveness of internal control systems</li> </ul>	<ul style="list-style-type: none"> <li>Review and recommend to NSC all KEBS human resource policies relating to terms and conditions of service of employees.</li> <li>Oversee the implementation of all approved human resource policies and procedures.</li> </ul>

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**III. CHAIRMAN'S STATEMENT**



I have great pleasure to present the KEBS annual report and unaudited accounts for the FY 2017/2018.

As an organization, our vision is to become a global leader in standards-based solutions that deliver quality and confidence. As I look at the institution's growth, I am extremely proud of what we have achieved towards this course and look forward to a promising future.

We have remained focused on delivering our core mandate which is promoting standardization in industry and commerce through standards development, metrology and calibration, testing, inspection, product certification, system certification, market surveillance and training within the East African Community and COMESA.

During the year under review, a total of 794 standards were developed amongst which 38 standards (textile, apparel and leather) support the Big Four Agenda and Kenya Vision 2030. Twenty-Seven (27) schemes of supervision and control were reviewed to enhance the certification of textile products. A total of 2635 products were certified under SMEs and 9076 products under the large firms, so as to improve their quality, competitiveness and access to markets. Thirteen (13) Calibration and Measurement Capabilities (CMCs) were published in the BIPM database. KEBS has continued to deliver beyond the targets and we are optimistic we will keep the momentum.

Some of the challenges faced include negative publicity that affected KEBS reputation and litigation risk as a result of our operations. To address these risks, KEBS has institutionalized a risk management framework that defines the risk appetite and risk tolerance so as to ensure business continuity.

Currently, we are implementing KEBS 2017-2022 Strategic Plan and together we will deliver guided by our commitment to service delivery, excellence, leadership and innovation. We believe that through this plan we will achieve great results for Kenyans.

On behalf of the National Standards Council, I wish to express my sincere gratitude and appreciation to our stakeholders. I also wish to recognize the commitment and the hard work displayed by the management and staff throughout the year.

A handwritten signature in blue ink, appearing to read "Ken Wathome".

Ken Wathome

**NSC CHAIRMAN.**

Date: 01 / 08 / 2019

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**IV. REPORT OF THE MANAGING DIRECTOR**



The role played by KEBS in providing standardization solutions is critical in achieving the goals set out in the Big Four Agenda in line with Kenya Vision 2030. This is realized through standards development, calibration and measurements, product certification and inspection, testing, market surveillance, system certification and training.

**KEBS MAJOR ACHIEVEMENTS DURING THE YEAR**

**Standards Development**

Standards form the basis for trade as they translate the market conditions into a precise set of requirements to be met. During the year under review, KEBS developed 794 new standards against a target of 680, out of which 38 standards were in support of the Vision 2030. These standards, once implemented, will complement Kenyan regulations and improve access of products to markets.

As part of our commitment to entrench the culture of quality in the market, a total of 25 standards propagation fora against a target of 24 were carried out focusing on specific sectors of the economy. These fora are important in raising awareness on newly developed standards as well as aiding in use, uptake and absorption of already existing standards.

**Quality Assurance**

During the year under review, a total of 11,711 products (2635 products under SMEs and 9,076 products under large firms) were certified so as to improve their quality, competitiveness and access to markets. KEBS continued to implement Pre-Export Verification of Conformity to standards (PVoC) with a compliance level of 92.1%.

**Metrology and Testing**

A total of 9,004 calibration services were offered against a target of 8,100. In addition, a total of 11 CMCs were maintained and 2 new CMC lines published as a demonstration of our capability in measurements. In the testing department, the testing capability was enhanced with an increase in testing scopes from 129 to 139. Furthermore, a total of 39,429 samples were tested.

**National Quality Institute (NQI)**

The NQI increased the number of training modules from 20 to 29. A total of 345 trainings were facilitated in the market against a target of 250. In addition, 178 SMEs were trained against a target of 123 on ISO 9001 module for SMEs. These trainings assist firms to improve their production systems and processes.

**Youth internships/ industrial attachment/Apprenticeships**

KEBS progressively involved 298 youth in internship, industrial attachment/or apprenticeship programs against a target of 250. These youth opportunities complement the government efforts to provide human and financial resources to facilitate access to quality education, which is critical in the protection and enjoyment of human rights in addition to enhancing the competitiveness of Kenya's human capital.

**Implementation of Access to Government Procurement Opportunities (AGPO)**

Tenders valued at Kshs 92.14 million were awarded to youth, women and people living with disabilities under the AGPO. Out of this value, a total of Kshs 3.06 million was awarded to persons living with disability.

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**Buy Kenya Build Kenya**

A total of Kshs 112.12 million was used to procure locally produced goods and services in support of the Buy Kenya, Build Kenya.

**Upgrade of Regional Offices**

KEBS completed Lake and Coast regional offices which has since been occupied. The construction of the North Rift Regional offices and Laboratories is ongoing.

**Total Revenue/ Expenditure**

Revenue amounting to Kshs. 3.87 billion was raised against a total expenditure of Kshs. 4.15 billion. This was an impressive performance owing to the slowed economy and the long electioneering period that affected industry.

It is worth noting that KEBS participated in EAC regional activities which included harmonization of standards and other conformity assessment activities. In collaboration with FAO/WHO Coordinating Committee for Africa, KEBS organized a regional workshop for National Codex contact points to strengthen the knowledge and skills of the delegates. This was aimed at enhancing Codex Alimentarius Commission's contribution to Sustainable Development Goals (SDG 2, 3 12 and 17).

During the year, we benefitted from donor support for improvement of our capacity. Specifically, KEBS received equipment valued at Kshs 153 million from European Union under the Standards Market Access Programme (EU-SMAP) and support for regional harmonization of standards valued at Kshs 25 M under the Regional Integration and Implementation Programmes (RIIP).

Some of the challenges that we faced include increased expenditure as a result emerging activities in Market surveillance, inadequate staffing in technical areas increase of substandard contraband products that has affected the level of compliance of products to standards in the market.

In conclusion, I wish to thank the Cabinet Secretary, Ministry of Industry, Trade, and Co-operatives, the Principal Secretary, State Department for Industrialization and the National Standards Council for their guidance on policy and strategic direction. I wish to recognize our development partners among them: Trade Mark East Africa, DANIDA, European Union, USAID, UNIDO, World Bank and IFC for their technical and financial support. I also wish to thank KEBS staff for their active support and dedication to standardization. These achievements for year would not have been possible without the staff support.



Bernard N. Njiraini.

**KENYA BUREAU OF STANDARDS  
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**V. CORPORATE GOVERNANCE STATEMENT**

**a) The roles and functions of the Board**

The roles and functions of NSC members is provided for in the Standards Act, Cap 496, Laws of Kenya and the same has been incorporated in the Board Charter.

- 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 KEBS;
- 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 KEBS
- v. Selecting and applying appropriate accounting policies; and
- vi. Making accounting estimates that are reasonable in the circumstances

**b) Committees of the Board**

The committees of the Board are as presented in Figure 4 below:

**Figure 4: Committees of the Board**

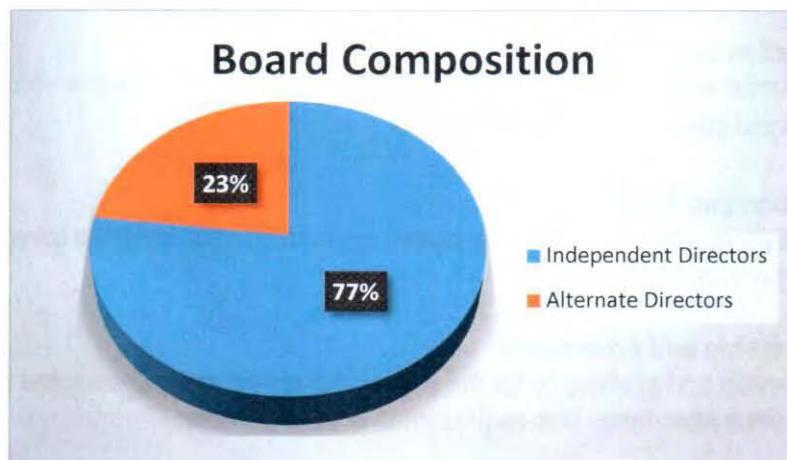


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**c) Board Composition**

Board members are drawn from diverse professional background. During the year under review, the board was composed of ten (10) independent non-executive directors and three (3) alternate directors representing Permanent Secretary - National Treasury, Permanent Secretary - State Department of Industrialization and the Inspector General of State Corporation.

Figure 5:      Board Composition



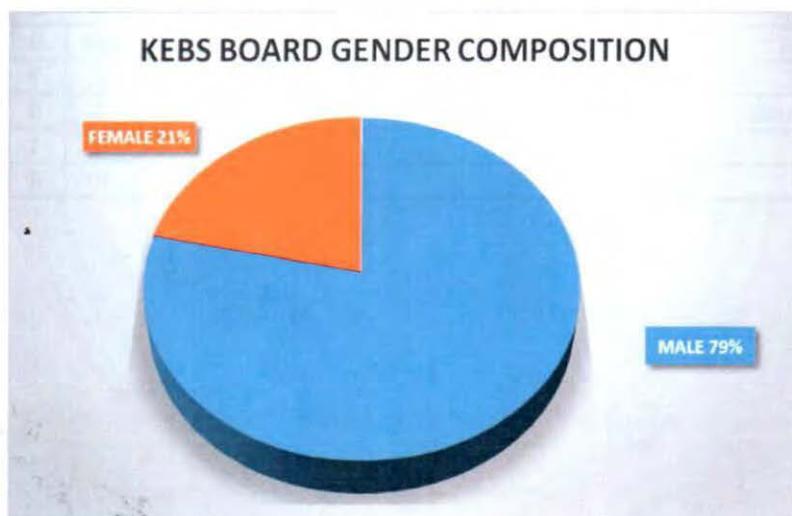
**d) Board Competence**

There was diversity of skills within the board to provide necessary expertise in regards to the running of the organization.

**e) Board Gender Representation**

In terms of gender presentation, the board had 21% female members and 79% male members as indicated below.

Figure 6:      Board Gender Composition



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**f) Board Charter**

There is a board charter that provides guidelines to the board in exercising its mandate. The charter was adopted by the organization acting in accordance with the *Mwongozo* Code of Governance for State Corporation and is complimentary to the requirements regarding the board and board members contained in applicable Kenyan laws and regulations. The charter is available to all members of the board.

**g) Appointment and Removal of Directors.**

The process of appointment and removal of Directors is done in line with the Standard Act Cap 496.

**h) Board Evaluation and Remuneration**

The Board evaluation was carried out in the month of April 2018. The Board remuneration was as per the State Corporation Act and government circulars.

**i) Board Induction and Training**

The induction of the new board members was carried out and training on corporate governance was also done during the year under review.

**j) Board Membership and Attendance**

Board membership and attendance for the year under review are as presented in the table 2 below and the committee attendance was as presented in table 3 below:

**Table 2: Board Members Attendance**

Board Member	Classification	Designation	S & G	SAC	FC	TC	PAC	AC	NSC
Ken Wathome	Independent	Chairman NSC	N/a	N/a	N/a	N/a	N/a	N/a	N/a
Mary Wanja Matu	Independent	Member	10	4	6	6	N/a	N/a	19
FouziaAbdirahman	Independent	Chairperson TC	5	4	9	7	N/a	N/a	16
Wisdom K. Mwamburi	Independent	Chairperson FC	10	4	10	2	3	N/a	15
Eric Wagithuku Mungai	Independent	Chairperson AC	9	4	N/a	2	3	21	15
Gladys Naini Maingi	Independent	Chairperson SAC	9	4	N/a	2	3	20	13
Mboche Waithaka	Independent	Member	3	4	N/a	6	3	21	15
Hon. Mohamed Hussein Ali	Independent	Chairperson S&G	10	4	N/a	6	3	21	15
Joseph Mbeva	Alt.to Ps Industrialization	Member	10	5	10	7	2	N/a	18
John Njera	Alt. to Ps National Treasury	Member	N/a	3	N/a	3	1	3	10
John Kisegu	Rep. Inspector Gen. State Corp.	Member	2	1	N/a	4	1	8	7
Patrick Musau Musila	Independent	Member	1	5	10	3	3	N/a	19
Edward Njoroge	Independent	Member	N/a	1	N/a	1	N/a	N/a	5
Gulam Yusuf	Independent	Member	10	4	N/a	5	N/a	12	12

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**Table 3: Board Committee Meetings**

**Board Meetings Per Committee**

Description	Total Planned	Actual Total
National Standards Council	20	20
Staff & General Committee	9	11
Standards Approval committee	4	5
Finance Committee	8	10
Technical Committee	8	7
Permits Approval Committee	4	3
Audit Committee	9	21
<b>Total</b>	<b>62</b>	<b>77</b>

**k) Conflict of Interest**

This was an agenda item in the board meetings and members were required to declare any conflict of interest.

**l) Governance Audit**

The governance audit was carried out by SCAC appointed auditors.

**m) Ethics and Conduct**

The NSC members are of good conduct and ethics.

**n) Risk Management**

Risk management is an integral part of the day-to-day business operation in KEBS. The NSC and the management are committed to implementing the risk management framework for effective operations to ensure that KEBS meets its mandate and for continuous improvement.

KEBS has in place a sound system of risk oversight and management and internal control to identify, assess, monitor and manage material risks related to the conduct of its activities. The aim of the risk management framework is to continually improve the management of risk and reduce the risks to acceptable levels as guided by risk appetite and risk tolerance statements. The risk management framework is reviewed by our certification body (BSI) for continuing suitability and effectiveness during management system external audits. KEBS has also integrated the performance management tool (Balanced Scorecard) with risk management process for effective monitoring of strategic and operational risks. The NSC is aware that some risks can never be eliminated fully and it has in place strategies that provide a structured, systematic and focused approach to managing risk.

**o) Internal Audit and Assurance**

The main function of internal audit is to provide assurance of the internal control and governance processes for continual improvement. KEBS internal controls are defined by approved policies and procedures, which contain operational and financial controls. Internal audit assurance is carried out by an independent internal audit department with oversight from the audit committee of NSC. The audit committee reviews internal audit plans and reports with a view of assessing compliance to various approved policies, procedures, relevant regulations and laws and as well as evaluating the adequacy and effectiveness of KEBS internal controls.

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**p) External audit**

The office of Auditor General provides external assurance through system audit and financial statements audit.

**VI. MANAGEMENT DISCUSSION AND ANALYSIS**

This annual report captures the overall performance of KEBS based on its key interventions and performance indicators in line with the performance contract.

This report highlights the financial and operational performances, challenges in relation to performance management, major risks facing the organization and corporate social responsibility activities carried out during the 2017/2018 financial year.

**1. Operational and financial performance of the organisation**

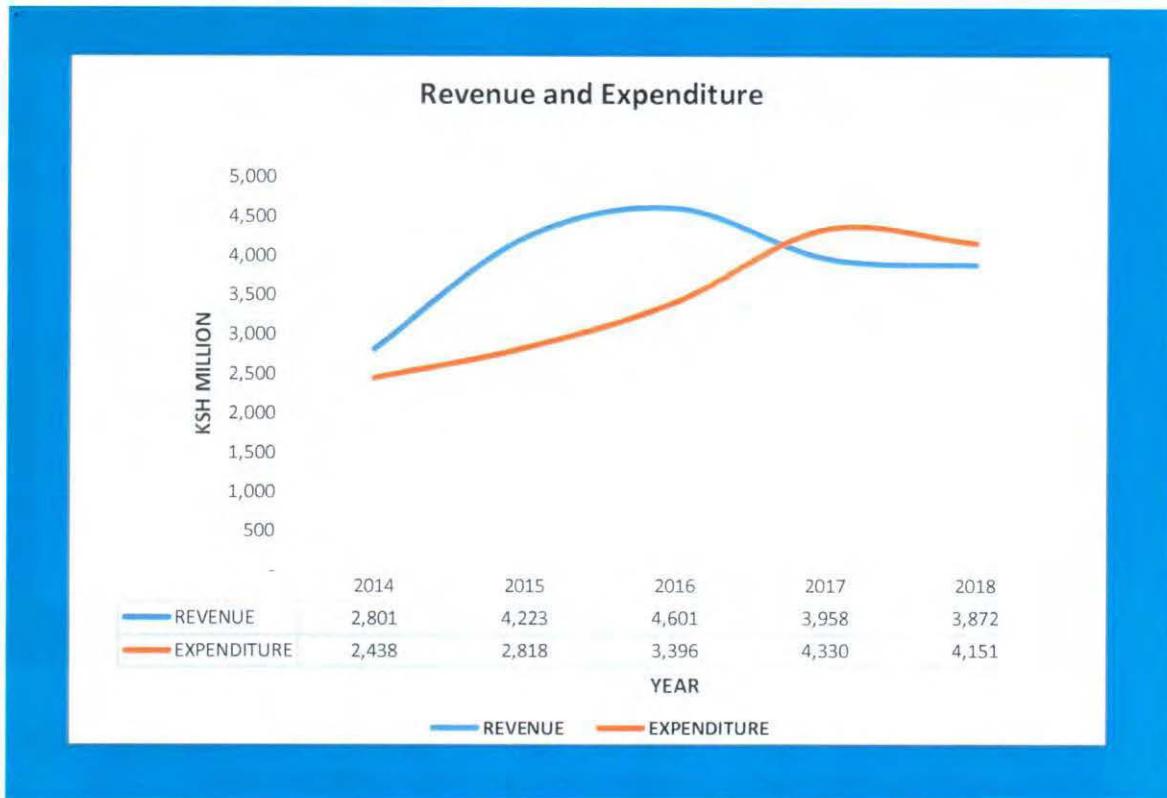
The operations of KEBS are based on the Strategic Plan 2017/2022 and the annual KEBS-GOK Performance contract guidelines. The annual work plans are implemented using the Balance Scorecard methodology. Presented below are the discussion and analysis of KEBS performance for the period under review.

**a) Financial Performance**

There has been a registered growth in revenue for the last four (4) years from a low of Kshs 2.3 billion in FY 2013 to a high of Kshs 4.6 billion in FY 2015 mainly attributed to the NSC, management and the entire staff commitments towards the achievement of KEBS vision. In the year 2018, the revenue dropped to Kshs 3.8 billion from Ksh3.9 billion reported in FY 2017. This drop was attributed to a change in government policy, which affected one of the revenue-generating stream. The revenue and expenditure were as presented in figure 7 below:

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**Figure 7: Revenue and Expenditure**



During the year under review the expenditure incurred was Kshs 4.1 Billion against revenue of Kshs 3.8 Billion leading to a deficit of Kshs 267 Million.

**i) Revenue**

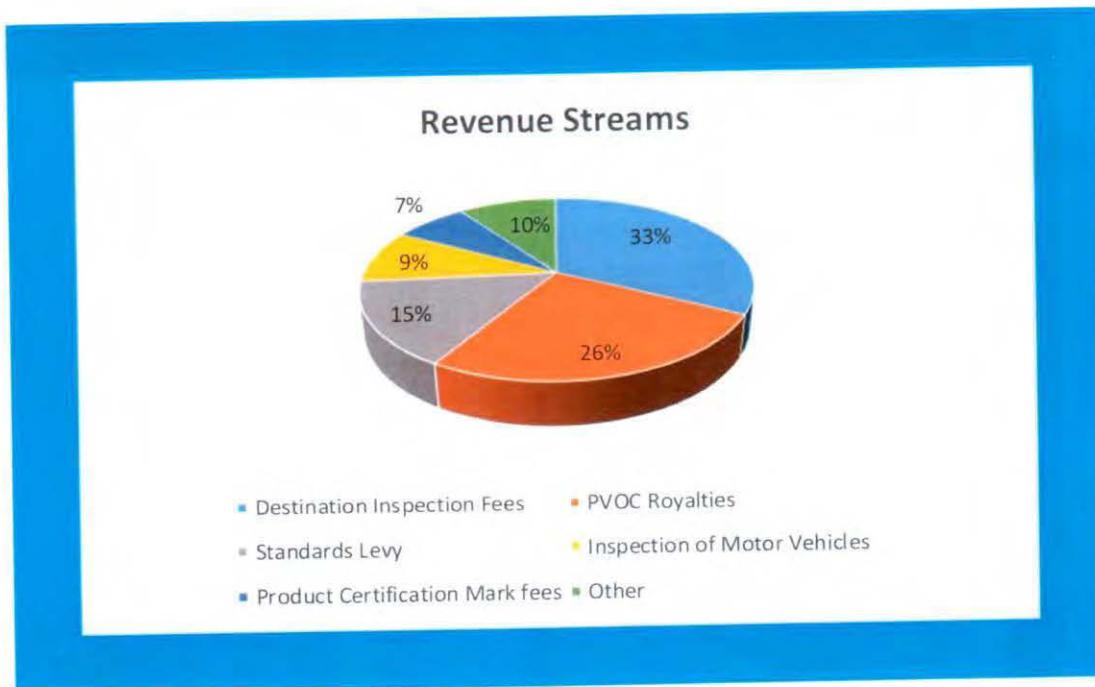
Revenue decreased by 3% as compared to FY 2017 and as compared to FY 2016, there was a further reduction of 17%. This was attributed to:

- a) Reduction in destination inspection fees following change in government policy on imported products.
- b) Reduction in revenue from system certification of 17%. This was affected by change in performance contracting guidelines which dropped the requirement for ISO certification for the government ministries, departments and Agencies
- c) Reduction in laboratory analysis and calibration fees due to the reduction in private samples tested and equipment calibrated during the year.

Figure 8 below presents the revenue streams as at the end of the period.

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**Figure 8: Revenue streams**



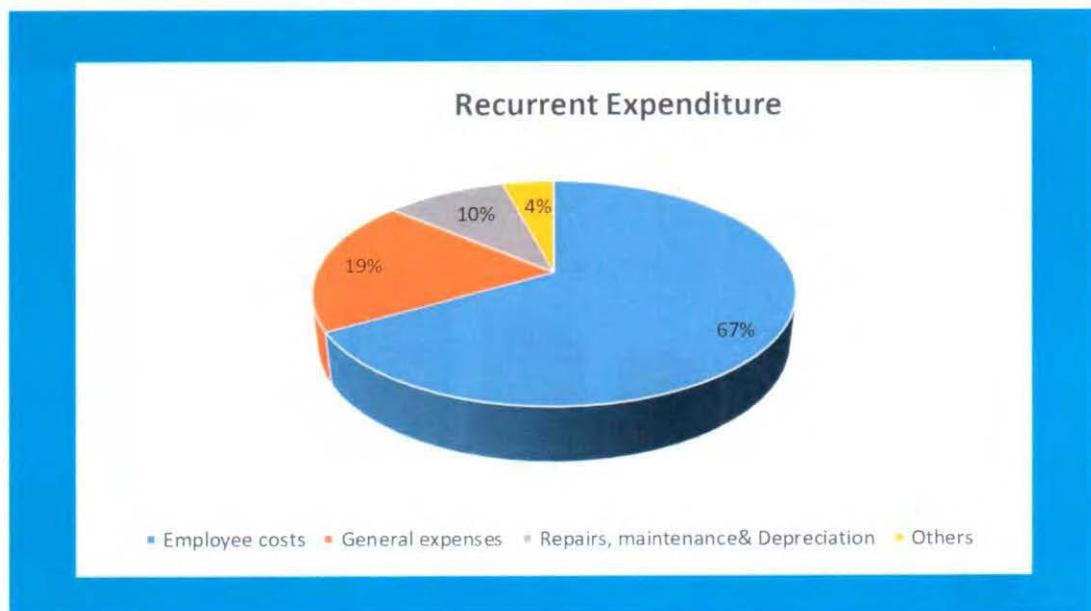
All the top five revenue streams fell under the category of regulatory income (destination inspection, PVoc royalties, standards levy, inspection of motor vehicles and product certification fees).

**ii) Expenditure**

The organisation's expenditure has been increasing for the last four (4) years at a lower rate than revenue. The increase was majorly attributed to increased organisational activities. In 2018, the expenditure marginally reduced by 4% from Kshs 4.3 billion reported in the previous year to Kshs. 4.1 billion. The reduction was mainly attributed to lower expenditure in pension cost and termination of remuneration to NSC members as eight (8) directors retired in April 2018. Only two (2) were reappointed and one (1) was a new appointment. There was however an increase in the finance expenditure due to the costs associated with running an overdraft facility. It is also important to note that on the recurrent expenditure, employee costs constituted the highest costs of the organisation as KEBS is a service organisation. The distribution of recurrent expenditure is as presented in figure 9 below.

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Figure 9: Recurrent Expenditure



iii) Total Assets

KEBS assets have doubled over the last five years as a result of the following:

- 1) Acquisition of KEBS building in Coast Region
- 2) Completion of the construction of regional offices in the Lake Region
- 3) Acquisition of the state of art equipment so as to increase testing scopes and improve efficiency in testing and measurement test results
- 4) Investment in the ICT infrastructure to facilitate business continuity

The total asset over the last five years is as presented in figure 10 below:

**KENYA BUREAU OF STANDARDS  
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

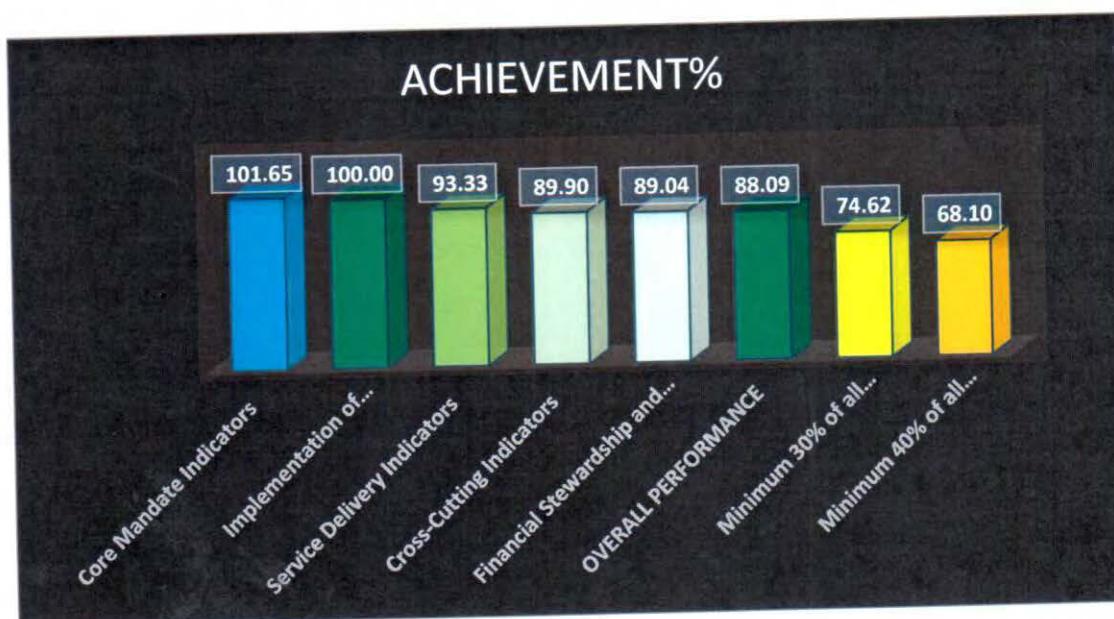
Figure 10: Total Assets



**b) Operational Performance**

The overall weighted aggregate performance score for KEBS in 2017-2018 Financial Year was **88.09%**, which is in the range of **Very Good**. The summary of achievement is as presented in figure 11 below:

Figure 11: KEBS Achievements FY 2017/2018



**KENYA BUREAU OF STANDARDS  
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

**c) Challenges in relation to the performance management**

- i. Rapid technological changes, which require KEBS to put large capital outlays for their replacement, adequate staffing levels and low levels of system integration.
- ii. Delay in release of performance contracting guidelines which affects the setting of targets internally and the implementation period.
- iii. Lack of funding by the national government

**KENYA BUREAU OF STANDARDS  
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

**Figure 12: North Rift Regional Office and Laboratory under Construction**



**ii) Acquisition of testing equipment**

KEBS have invested in state of the art testing equipment with the support of the following partners: Trade Mark East Africa, European Union – Standards and Market Access Program. Subsequently, the utilization of these equipment has improved operational efficiency by 33% in the last five years. The Acquisition of these equipment will enable KEBS to increase the testing scope, improve proficiency in testing and improve efficiency through reduction in turn-around-time and overall compliance with service delivery timelines. Some of the equipment acquired with the assistance of EU-SMAP project are as given in figure 10 below.

**Figure 13: KEBS Testing Equipment Funded under EU-SMAP Project**



**KENYA BUREAU OF STANDARDS  
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

**iii) Automation**

KEBS has continued to invest in Information Communication and Technology both hardware and software. The current automation level stand at 48%. The current computer ratio per user is 1:2

**iv) Standards Development**

As a way improving stakeholder engagement in the standardization process, a three-year national Standardization Plan 2016-19 was developed and is being implemented, this plan is accessible to the public through the KEBS website.

**b) Major risks facing the organisation and the Mitigation measures,**

- i. Over reliance on regulatory revenue streams. KEBS needs to strengthen the other non-regulatory revenues so as to leverage and reduce the impact of reduction in revenue from regulatory revenue streams.
- ii. Substandard goods brought in through non-official routes. This has been addressed through increased efforts in market surveillance, and sensitization of the public on use of the "20023 messaging system on confirmation of products in case of doubt.
- iii. Reputational risk arising from widespread negative publicity. KEBS seeks to improve its image by conducting campaigns and upon seizure of substandard goods, the destruction of the goods in public according to the laid procurements and relevant regulations.
- iv. Credit risk due to fluctuation of interest rate. KEBS has ensured that the Overdraft facility is regularly maintained and a ceiling has been put in place as a way of controlling the finance cost.
- v. Liquidity risk due to restricted cash in bank. KEBS has negotiated for an overdraft to cater for the liquidity short fall that may arise due to the restriction of funds.
- vi. Market Risk-the possibility that KEBS may suffer a loss due to inflation or the fluctuation of currencies. KEBS negotiates for favourable exchange rates for mitigation of Currency fluctuation and also purchases by use of local purchase orders as a commitment of prices to mitigate on price fluctuations.

**c) KEBS compliance with statutory requirements**

The organisation complied with all mandatory statutory requirements from remittance of the statutory deductions within the set time line to holding of the board meetings as required.

**d) Material arrears in statutory and other financial obligations**

At the close of the financial year, the organisation did not have any material statutory arrears. Only financial obligations were in form of commitments that were yet to actualise this appears under the statement of capital commitment and litigations.

**KENYA BUREAU OF STANDARDS  
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

**VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT AND SUSTAINABILITY REPORTING**

**1. Corporate Social Responsibility**

KEBS Corporate Social Responsibility (CSR) is aimed at creating a positive impact on the society. The main objective is to maximize KEBS contribution to sustainable development through sponsorship of causes involving women, youth and persons living with disability. The following CSR activities were undertaken:

**a) Hand in Hand Awareness Program**

This program targeted vulnerable women SMEs aimed at sensitizing them on quality to enhance their entrepreneurship activities.

**Figure 15: Hand in Hand Program**



**b) Visit to children's homes St. Joseph Shelter of Hope.**

KEBS supported the less fortunate in the society through visit to various children's home.

**Figure 16: Visits to St. Joseph's and Kwetu Children's Home**



**KENYA BUREAU OF STANDARDS  
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

CORPORATE SOCIAL RESPONSIBILITY STATEMENT AND SUSTAINABILITY REPORTING (continued)

**c) Mama Ngina Children's Home**

KEBS team visited Mama Ngina children home where orphaned children are rescued and taken care of. KEBS spent quality time with the kids aged one-day old to school going children of 12years. The team played, dinned and created awareness of quality products to them through the recognition of KEBS quality marks.



Happy children receive donations of uniforms, clothes and other assorted food items

**d) NOVA Pioneer High School**

KEBS held a one-week internship and career development opportunity for high school students from NOVA Pioneer school for leaders and innovators. The exercise aimed at giving the students a real time application of the skills they learn in class to the market place.



**2. Sustainability Report**

**a) People**

There is a Human Resource Manual guiding on recruitment and selection, terms and condition of employment and retention strategies. The policy provides for affirmative action eg. age, gender and persons living with disabilities and regional balancing. The NSC promotes gender and disability mainstreaming. KEBS handles staff grievances as per human resource policy.

**KENYA BUREAU OF STANDARDS  
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

CORPORATE SOCIAL RESPONSIBILITY STATEMENT AND SUSTAINABILITY REPORTING (continued)

b) **Wellness**

A wellness program for monitoring BMI, blood sugar and blood pressure was carried out at KEBS with total attendance of 2281 persons (1254 Male and 1027 female). In addition, KEBS provided wellness gym facilities in which 819 members attended.



c) **Competency Development**

KEBS maintains a skills matrix which defines the competencies required for the realization of the objectives. A total of 733 Skill based programmes and 17 broad based programmes were carried out base on the annual training plan.

d) **Occupational health and safety.**

KEBS undertook the following activities under the Occupational Health & Safety Act, 2007 and related EHS legislation. A routine Occupational Health and safety Inspection was conducted and Workplace Registration Certificates were maintained. In addition, routine medical examinations for staff exposed to specific hazards were carried out and an annual emergency/fire evacuation drills were conducted. Over 500 trees were planted at the Head office and Kisumu Regional office.



**KENYA BUREAU OF STANDARDS  
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

CORPORATE SOCIAL RESPONSIBILITY STATEMENT AND SUSTAINABILITY REPORTING (continued)

**e) Corruption prevention**

Integrity is one of KEBS core values. The organization has continued to implement the anti-corruption policy and corruption prevention through the guidance of the anti-corruption committee. The anti- corruption committee is composed of various head of departments with the head of human resource department as the secretariat and chaired by the managing director. KEBS implemented various strategies to combat corruption.

**f) Whistle Blowing Policy**

KEBS is committed to protecting the identity of all employees and stakeholders when they provide information regarding corruption related activities or participate in investigation. KEBS has provided channels of reporting corruption such as toll free line and emails. The NSC and management encourages staff to whistle blow without victimization.

**g) ISO Accreditation/Certification.**

KEBS maintains accreditation for its metrology, testing and certification functions.in addition we hold an ISO 9001 Certification for standards development, product certification, market surveillance and the National Quality Institute.

**i. ISO 17025 Accreditation - Metrology**

KEBS maintained the ISO/IEC 17025 accreditation status of five Metrology laboratories: AC/DC, Force, Mass, Temperature, Force and Volume and Flow and ISO 9001 certification for instrumentation/ workshop section

**ii. ISO 17025 Accreditation -Testing**

KEBS Testing Laboratories are accredited to ISO 17025 by the South African National Accreditation Services (SANAS). The third edition of accreditation standard 17025 was reviewed and released in November 2017 and is currently being implemented

**iii. ISO 17021 Accreditation**

KEBS – CB maintained accreditation to ISO/IEC 17021 by RVA and KENAS

**iv. ISO 17065 Accreditation**

The KEBS Quality Assurance Department has undertaken Gap Analysis, review of pre-assessment findings and reviewed quality documents based on the same bringing the implementation level to 86%.

**v. ISO 17020 Accreditation**

The KEBS Inspection Body selected an accreditation body to carry out document review, pre-assessment and initial assessment which moved the level of project implementation to 86%.

**vi. ISO 9001 Certification**

KEBS holds certification to ISO 9001:2015 by BSI The organization was successfully recertified to the same standard in February 2018.

**KENYA BUREAU OF STANDARDS**  
**REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

**VIII. REPORT OF THE DIRECTORS**

The directors submitted their report together with the un-audited financial statements for the year ended June 30, 2018, which show the state of the KEBS affairs.

**Principal Activities**

The principal activities of KEBS are:

1. Promoting Standardization in commerce and industry.
2. Providing testing and calibration Services
3. Controlling the use of standardization marks.
4. Educating stakeholders and clients on standardization.
5. Facilitating the implementation and practical application of standards
6. Maintaining and disseminating International System of units (SI) of measurement.

**Results**

The results of KEBS for the year ended June 30, 2018 are set out on Page 44

**Directors**

The members of the National Standards Council who served during the year are shown on page 5. The following NSC members exited or appointed to the NSC during the year under review: -

No.	Board Member	Status
1	Mary Wanja Matu	Retired on 16 <sup>th</sup> April 2018 and Re-appointed on 10 <sup>th</sup> May 2018
2	Wisdom Mwamburi	Retired on 16 <sup>th</sup> April 2018
3	Eric Mungai Wagithuku	Retired on 16 <sup>th</sup> April 2018
4	Mohammed Hussein Ali	Retired on 16 <sup>th</sup> April 2018
5	Gladys Maingi	Retired on 16 <sup>th</sup> April 2018
6.	Nazir Gulam Yusuf	Retired on 16 <sup>th</sup> April 2018
7.	Mboche Waithaka	Retired on 16 <sup>th</sup> April 2018
8	Fouzia Abdirahaman	Retired on 16 <sup>th</sup> April 2018 Re-appointed on 10 <sup>th</sup> May 2018
9	Edward Njoroge	Appointed on 10 <sup>th</sup> May 2018

**Surplus Remission**

KEBS did not report any surplus during the year (FY 2017-nil) and hence there was no remittance to the Consolidated Fund.

**Auditors**

The Auditor General is responsible for the statutory audit of the KEBS in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015

By Order of the NSC.



Bernard N. Njiraini  
AG. MANAGING DIRECTOR

**KENYA BUREAU OF STANDARDS**  
**REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

**IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012 and the Standards Act (Cap 496) require the National Standard Council to prepare financial statements in respect of KEBS, which give a true and fair view of the state of affairs of KEBS at the end of the financial year/period and the operating results of the KEBS for that year/period. The Council is also required to ensure that the Bureau keeps proper accounting records, which disclose with reasonable accuracy the financial position of KEBS. The Council is also responsible for safeguarding the assets of KEBS.

The National Standards Council is responsible for the preparation and presentation of KEBS financial statements, which give a true and fair view of the state of affairs of the Bureau for and as at the end of the financial year ended on June 30, 2018. This responsibility includes:

- a) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- b) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of KEBS;
- c) 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;
- d) Safeguarding the assets of KEBS
- e) Selecting and applying appropriate accounting policies; and
- f) Making accounting estimates that are reasonable in the circumstances.

The Council accept responsibility for the KEBS 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 requirements of the Standards Act. The Council is of the opinion that KEBS financial statements give a true and fair view of the state of KEBS transactions during the financial year ended June 30, 2018, and of the KEBS financial position as at that date. The Council further confirm the completeness of the accounting records maintained for KEBS, which have been relied upon in the preparation of the KEBS financial statements as well as the adequacy of the systems of internal financial control.

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

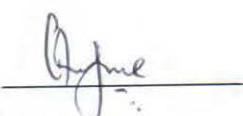
**Approval of the Financial Statements**

The KEBS financial statements were approved by the National Standards Council on \_\_\_\_\_ 2018 and signed on its behalf by:



NSC Chairman

Chairperson -Finance Committee



NSC Member

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KENYA BUREAU OF STANDARDS FOR THE YEAR ENDED 30 JUNE 2018

#### REPORT ON THE FINANCIAL STATEMENTS

##### **Qualified Opinion**

I have audited the accompanying financial statements of Kenya Bureau of Standards set out on pages 43 to 70, which comprise the statement of financial position as at 30 June 2018, and statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Bureau of Standards as at 30 June 2018, 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 Standards Act, Cap 486 of the Laws of Kenya.

##### **Basis for Qualified Opinion**

###### **1. Receivables from Exchange Transactions**

- i. As reported in the previous year, receivables from exchange transactions balance of Kshs.438,443,599 as at 30 June 2018 includes long outstanding debts of Kshs.17,500,000 owed by a law firm under receivership in respect of a payment made to the firm for purchase of land at Donholm Estate in Nairobi. Although the transaction turned out to be fraudulent, recovery of the money had not been made as at 30 June 2018. Further, the Public Investments Committee recommended that the Ethics and Anti-Corruption Commission investigates the matter and recommend for prosecution any person found culpable in defrauding the organization and also report progress on this matter to the National Assembly within six (6) months. The outcome of this investigation has not been disclosed. In addition, the organization requested for write-off of the long outstanding amount, but is still awaiting approval by the National Treasury.
  
- ii. As previously reported, prepayments of Kshs 2,697,529 to three firms for goods

or written off while the adequacy of provision for bad and doubtful debts of Kshs.49,137,406 made in the financial statements could not be ascertained.

- iii. A review of the Bureau's records revealed that debtors amounting to Kshs.213,159,161 have remained outstanding for more than ninety (90) days contrary to the Bureau's credit policy. The amount of Kshs.213,159,161 includes Kshs.27,874,303 that did not have any movement from previous year. Although the board had approved the write off of debts amounting to Kshs.42,034,269, Treasury approval has however not been obtained.

In view of the above, it has not been possible to confirm the accuracy and recoverability of receivables from exchange transactions balance of Kshs.438,443,599 as at 30 June 2018.

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

The plant, property and equipment balance of Kshs.3,232,918,593 as at 30 June 2018 includes work-in-progress figure of Kshs.115,972,720 which excludes preliminary cost amounting to Kshs.101,938,209 being consultancy costs incurred on the construction of coast region laboratories. As previously reported, the Bureau abandoned the project and instead acquired a new building for its operations in Mombasa with the preliminary cost of Kshs.101,938,209 remaining as work in progress since 2012/2013. During the year 2016/2017, management expensed the preliminary costs in the financial statements and charged it under project and consultancy expenses.

In the circumstances, no value for money was obtained on the expenditure of Kshs.101,938,209.

## **3. Legal Matters – Procurement of Legal Firms**

During the year under review, the Bureau incurred Kshs.132,888,962 on legal services including services obtained from Rachier & Amollo and Advocates on 28 July 2017 via letter ref: KEBS/COA/132/2017 (4) which sought further legal support from Iseme Kamau and Muema Advocates) to represent the Bureau in the Court of Appeal Civil application No.132 of 2017 between the and Geo Chem Middle East when the High court declined to set aside an arbitral award made in favour of Geo Chem Middle for a total sum of US Dollars 15,401,504.71 plus interest.

Further, the management wrote to the Office of Attorney General on 28 July 2017 via letter ref: KEBS/CONF/IMP/INSP/1 VOL 3(49) seeking approval to appoint the two firms to represent the Bureau in the above stated case. The Office of the Attorney General via response letter referenced AG/CON/6/D/144/Vol.II dated 31 July 2017 granted a conditional approval subject to the Bureau providing the AG with the

Attorney General was a mere ratification of procurement decision KEBS had already made.

In the circumstances, it was not possible to confirm that the above procurement was done in line with the procurement law.

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

### **Emphasis of Matter**

#### **1. Restricted Bank Balances**

As previously reported, cash and cash equivalents balance of Kshs.2,677,706,819 as at 30 June 2018 include Kshs.391,801,342 held in Kenya Commercial Bank, Cooperative Bank of Kenya and National Bank of Kenya attached by a court order dated 14 June 2017 issued in the case of GeoChem Middle East versus Kenya Bureau of Standards (KEBS). Information available indicates that GeoChem Middle East was in 2009 contracted to inspect petroleum products but the contract was suspended by the Government of Kenya. GeoChem Middle East filed arbitration proceedings against KEBS in 2015 claiming loss of earnings and was awarded about Kshs.1.5 billion in July 2016. The management of the Bureau appeal against the award in the High Court was dismissed and GeoChem Middle East application to enforce the award was allowed. GeoChem Middle East managed to have the funds held in the three bank accounts frozen all with a cumulative balance of Kshs.391,801,341 which the Bureau has not been able to access as at 30 June 2018 but the court case was still ongoing.

#### **2. Supply and Implementation of Application Software for KEBS Integrated Quality Assurance and Inspection Operation**

As reported in the previous year, the Management paid Kshs.13,497,120 being 60% of contract sum Kshs.22,495,200 to a local company for the supply and implementation of applications software for Bureau's integrated quality assurance and inspection operations. The contract was signed in the year 2012 and was to take duration of 8 months with a provision of extension of not more than 14 days. The amount has remained as work in progress since 2012/13 and it appears the project stalled. This is a clear indication of weak contract administration controls which may lead to loss of funds already paid in the event the contract is not completed. Consequently, the Bureau is likely to lose Kshs13,497,120 already paid as part of the contract.

#### **3. Pre-Export Verification of Conformity (PVO) for Exports to Kenya**

As reported in the previous year, the statement of financial performance for the year

Kshs.3,707,985,187 out of which Kshs.2,375,571,667 was earned from PVOC Program. Available information revealed that a local freight company imported goods with a custom value Kshs.187,652,754 but were not subjected to Destination Inspection (DI) and duty thereof at 15% on value. Had the goods been subjected to the inspection and duty levied, the Bureau would have recorded additional revenue of Kshs.28,147,193. Consequently, an amount of Kshs.28,147,193 was not collected or accounted for as receivables. The management has not made any efforts to recover the amount.

### **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. Except for the matters described in the Basis for Qualified Opinion section. I have determined that there are no Key Audit Matters to communicate in my report.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

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

### **Basis for Conclusion**

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

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

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion section of my report, 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.

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 (Accrual Basis) and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the Bureau's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Bureau either cease operations, or have no realistic alternative but to do so.

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 standard which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Bureau's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to 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 the 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:

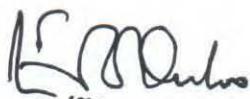
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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.

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 Bureau 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 Bureau to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

Nairobi

26 August 2019

**KENYA BUREAU OF STANDARDS**  
**REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

**XI. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED JUNE 30, 2018**

The notes set out on pages 49 to 70 form an integral part of these Financial Statements

	Notes	2017-2018	2016-2017
		Kshs	Kshs
<b>Revenue from non-exchange transactions</b>			
Standards Levy	1	581,694,329	583,113,171
<b>Revenue from exchange transactions</b>			
Rendering Of Services	2	3,189,682,609	3,154,389,941
Government Transfer-( RIIP)	3	25,000,000	-
Finance Income - External Investments	4	91,839,626	191,742,008
Other Income	5	13,809,394	28,164,209
<b>Total revenue</b>		<b>3,902,025,959</b>	<b>3,957,409,329</b>
<b>Expenses</b>			
Employee costs	6	2,772,348,030	2,920,285,678
Remuneration of directors	7	53,850,323	77,742,511
Depreciation and amortization expense	8	194,689,347	169,604,524
Repairs and maintenance	9	205,569,180	285,401,800
Contracted services	10	31,021,223	127,522,135
General expenses	12	825,194,648	740,225,917
Finance costs	13	86,388,365	8,818,032
<b>Total expenses</b>		<b>4,169,061,117</b>	<b>4,329,600,597</b>
<b>Other gains/(losses)</b>			-
Loss on Disposal			(941)
<b>Deficit for the period</b>		<b>(267,035,158)</b>	<b>(372,192,209)</b>
Remission to National Treasury		-	-
<b>Net Surplus for the year</b>		<b>(267,035,158)</b>	<b>(372,192,209)</b>

**KENYA BUREAU OF STANDARDS**  
**REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

**XII. STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2018**

	Notes	2017-2018	2016-2017	
		Kshs	Kshs	
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	15	2,677,706,819	2,693,846,005	
Receivables from exchange transactions	16	438,443,599	409,061,460	
Current portion of long-term receivables from exchange transactions	16	609,628,046	510,314,856	
Receivables from non-exchange transactions	17	34,703,177	54,226,133	
Inventories	18	98,525,005	98,324,193	
		3,859,006,646	3,765,772,647	
<b>Non-current assets</b>				
Property, plant and equipment	23	3,232,918,593	2,931,551,709	
Intangible assets	24	11,810,488	16,872,126	
		3,244,729,082	2,948,423,835	
<b>Total assets</b>		<b>7,103,735,728</b>	<b>6,714,196,482</b>	
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables from exchange transactions	19	369,029,031	241,953,148	
Current portion of borrowings	21	938,695,028	165,873,701	
		1,307,724,059	407,826,849	
<b>Non-current liabilities</b>				
Non-current employee benefit obligation	20	-	396,721,128	
		-	396,721,128	
<b>Total liabilities</b>		<b>1,307,724,059</b>	<b>804,547,977</b>	
<b>Net assets</b>		<b>5,796,011,669</b>	<b>5,909,648,505</b>	
Revaluation Reserves		990,156,591	990,156,591	
Accumulated surplus		3,810,386,872	4,077,422,030	
Capital Fund		995,468,206	842,069,884	
<b>Total net assets and liabilities</b>		<b>5,796,011,669</b>	<b>5,909,648,505</b>	

The Financial Statements set out on pages 43 to 70 were signed on behalf of the NSC by:



Ag. Managing Director  
Bernard N. Njiraini



Director Finance and Strategy  
Mohammed Adan



NSC Chairman  
Ken Wathome

Date 01 August 2019

Date: 01/08/2019

Date: 01/08/2019

**KENYA BUREAU OF STANDARDS**  
**REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

**XIII. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2018**

	Revaluation reserve	Retained earnings	Capital/ Development Grants/Fund	Total
<b>At July 1, 2016</b>	<b>990,156,591</b>	<b>4,449,614,240</b>	<b>842,069,884</b>	<b>6,281,840,715</b>
Total comprehensive income	-	(372,192,209)	-	(372,192,209)
Capital/Development grants received during the year				
Transfer of depreciation/amortisation from capital fund to retained earnings				
<b>At June 30, 2017</b>	<b>990,156,591</b>	<b>4,077,422,030</b>	<b>842,069,884</b>	<b>5,909,648,505</b>
<b>At July 1, 2017</b>	<b>990,156,591</b>	<b>4,077,422,030</b>	<b>842,069,884</b>	<b>5,909,648,505</b>
Revaluation gain				
Total comprehensive income		(267,035,158)		(267,035,158)
Capital/Development grants received during the year			153,398,322	153,398,322
<b>At June 30, 2018</b>	<b>990,156,591</b>	<b>3,810,386,872</b>	<b>995,468,206</b>	<b>5,796,011,669</b>

**KENYA BUREAU OF STANDARDS**  
**REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

**XIV. STATEMENT OF CASH FLOWS AS AT JUNE 30, 2018**

	Note	2017-2018	2016-2017
		Kshs	Kshs
<b>Net cash flows from operating activities</b>		321,457,086	(358,032,006)
<b>Cash flows from investing activities</b>			
Purchase of property, plant, equipment and intangible assets	23	(490,994,594)	(519,323,611)
Add Back - Equipment Grant ( Smap)		153,398,320	
Proceeds from sale of property, plant and equipment			9,000
<b>Net cash flows used in investing activities</b>		(337,596,274)	(519,314,611)
<b>Net Increase in cash and cash equivalents</b>		(16,139,188)	(877,346,617)
Cash and cash equivalents at begininning.		2,693,846,005	3,571,192,622
<b>Cash and cash equivalents as at 30th June 2018</b>	15	2,677,706,816	2,693,846,005

**KENYA BUREAU OF STANDARDS**  
**REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

**XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2018**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2017-2018	2017-2018	2017-2018	2017-2018	2017-2018
<b>Revenue</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
Standards Levy	640,043,600		640,043,600	581,694,329	-58,349,271
<b>Revenue from exchange transactions</b>					
Rendering of services	3,866,137,000	50,100,000	3,916,237,000	3,189,682,609	- 676,454,391
Government Transfer-( RIIP)	25,000,000	-	25,000,000	25,000,000	-
Finance Income	54,000,000		54,000,000	91,839,626	37,839,626
Other Income	2,997,000		2,997,000	13,809,394	10,812,394
<b>Total revenue</b>	<b>4,588,177,600</b>	<b>50,100,000</b>	<b>4,638,277,600</b>	<b>3,902,025,959</b>	<b>- 686,151,641</b>
<b>Expenses</b>					
Employee costs	3,179,312,568		3,179,312,568	2,772,348,030	406,964,538
Remuneration of directors	74,960,000		74,960,000	53,850,323	21,109,677
Depreciation and amortization expense	82,044,000		82,044,000	194,689,347	- 112,645,347
Repairs and maintenance	278,989,200		278,989,200	205,569,180	73,420,020
Contracted services	47,076,000	- 1,000,000	46,076,000	31,021,223	16,054,777
General expenses	1,106,675,036	140,124,789	1,246,799,825	825,194,648	281,480,388
Finance costs	8,080,000		8,080,000	86,388,365	- 78,308,365
<b>Total expenditure</b>	<b>4,777,136,805</b>	<b>139,124,789</b>	<b>4,916,261,594</b>	<b>4,169,061,117</b>	<b>608,075,688</b>
<b>Surplus for the period</b>	<b>- 188,959,205</b>		<b>- 188,959,205</b>	<b>- 267,035,158</b>	

**Notes for material deviation**

i) **Standards Levy**

The following was noted:

- a) Closure of some manufacturing firms owing Standards Levy.
- b) Slowed economic performance due to long electioneering period.

ii) **Laboratory Analysis Fees**

There was a large number of samples received during the period from quality assurance, market surveillance and standards developments. Such samples do not generate revenue.

iii) **Metrology Services and System Certification**

The variation was due to:

- a) Increased competition for metrology/certification services in Kenya
- b) Staff shortage to handle the metrology/system certification.

v) **Inspection of Petroleum**

This was an anticipated revenue however; the poor performance is due to some legal framework that was not concluded.

vi) **Finance cost**

This is attributed to the growth in the overdraft facility held by KEBS.

**KENYA BUREAU OF STANDARDS**  
**REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

vii) **Depreciation and Amortization Expenses**

This is due to increase in equipment from EU-SMAP Grant and the completion of Mombasa and Kisumu Regional Buildings that were transferred from work in progress.

**Summary of reallocations**

The main reason for the reallocations was to cover for activities not adequately covered in the initial budget.

**KENYA BUREAU OF STANDARDS  
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

**XVI. NOTES TO THE FINANCIAL STATEMENTS**

**1. General Information**

KEBS was established under an Act of Parliament and derives its authority and accountability from the Standards Act (Cap.496). KEBS is a state corporation and is domiciled in Kenya. KEBS principal activities include development of Kenya Standards, dissemination of standards related information, quality assurance, maintenance and dissemination of measurement standards, calibration of measurements and testing equipment, laboratory testing, product and quality, systems certification, training and quality inspection of all imports.

**2. Statement of Compliance and Basis of Preparation - IPSAS 1**

KEBS financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The Financial statements are presented in Kenya Shillings (Kshs) which is the functional and reporting currency. All values have been rounded to the nearest shilling. The accounting policies have been applied consistently.

The financial statements have been prepared based on the historical cost, except where otherwise stated in the in the accounting policies below. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

**3. Adoption of New and Revised Standards**

**i. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017**

Presented in the table below are Relevant new standards and amendments that were to be published standards effective for the year ended 30 June 2018

Standard	Impact
<b>IPSAS 39: Employee Benefits</b>	<b>Applicable: 1<sup>st</sup> January 2018</b> The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach. KEBS operates a defined contribution Pension scheme as per the government directive.  The Standard is applicable to KEBS and already applied however the application of this standard had no material impact on the disclosures or the amounts recognized in the financial statements
<b>IPSAS 40: Public Sector Combinations</b>	<b>Applicable: 1<sup>st</sup> January 2019:</b> 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 that are covered purely under Public Sector combinations as amalgamations.  The standard is currently not applicable to KEBS

**KENYA BUREAU OF STANDARDS  
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

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

**ii. Early adoption of standards**

KEBS did not early – adopt any new or amended standards in year 2018

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Revenue recognition**

**i. Revenue from non-exchange transactions- IPSAS 23  
Standards Levy Fees**

Kenya Bureau of standards recognises revenues from Standards Levy fees, when the event occurs and the asset recognition criteria are met. Other non-exchange revenue is recognised when it is probable that the future economic benefits or service potential associated with the asset will flow to the KEBS and the fair value of the asset can be measured reliably.

**ii. Rendering of services**

Revenue from rendering of services is recognised 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.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

**iii. Interest income**

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

KEBS recognized interest income as it is earned on accrual basis.

**b) Budget information – IPSAS 24**

The original budget for FY 2017-2018 was approved by the National Treasury on 28<sup>th</sup> Feb 2017. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by KEBS upon receiving the respective approvals in order to conclude the final budget.

KEBS budget is prepared on the same basis to the actual income and expenditure disclosed in the financial statements. The amounts in the financial statements were recast and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

**c) Taxes**

**Sales tax**

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

When receivables and payables are stated with the amount of sales tax included.

**KENYA BUREAU OF STANDARDS  
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

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

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

KEBS recognises expenses and assets at gross amount.

**Corporation tax**

As per regulation 219(3) of the PFM regulations 2015, the Cabinet Secretary of Treasury has exempted regulatory authorities from payment of income tax of which KEBS is in that category.

**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, such parts are recognized 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 is calculated on a reducing balance at the indicated annual rates:

Buildings	Over the leased period of 99 years
Equipment	10%
Computer	30%
Motor vehicle	20%

Free hold land and work in progress is not depreciated.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating surplus or deficit.

**e) Operating Leases (IPSAS 13)**

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

KEBS operating leases are in the form of rental premises and leased printing machines. The payments are expenses in the statement of financial performance

**f) 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.

**KENYA BUREAU OF STANDARDS  
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

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

**g) Inventories – IPSAS 12**

Inventories are stated at lower of cost and net realisable value. Cost is determined on First in First out (FIFO) method.

**h) Financial Instruments (IPSAS 29)**

**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 Entity determines the classification of its financial assets at initial recognition.

**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 Entity 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. KEBS does not have financial instruments

**i) Provisions –IPSAS 19**

Provisions are recognized when KEBS 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.

**j) Contingent liabilities**

Contingent liabilities are possible obligations that arose from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events but is not recognized because;

- It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- The amount of the obligation cannot be measured with sufficient reliability

KEBS 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.

**k) \*Contingent assets**

KEBS 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 Entity 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.

**KENYA BUREAU OF STANDARDS  
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

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

**i) Nature and purpose of reserves**

Reserves are created and maintained in terms of specific requirements. KEBS Revenue reserves are maintained for purposes of purchase of equipment, construction of regional offices and laboratories, contingent liabilities and capital commitments that become payable. Revaluation reserves refer to the change in fixed assets since the last revaluation in 2009.

**m) Changes in accounting policies and estimates – IPSAS 3**

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

**n) Employee benefits – IPSAS 39**

**Retirement benefit plans**

Kenya Bureau of Standards operates a defined contribution and defined benefit scheme for its employees. The defined contribution scheme is administered by Trustees and is funded from contributions from both the employer and employee at 12% and 10% of the basic salary respectively. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation. KEBS last actuarial valuation was done in March 2015.

**o) 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.

**p) Related parties- IPSAS 20**

The organization 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 Entity, or vice versa. Members of key management are regarded as related parties and comprise the Managing Director, Divisional Directors, Heads of Legal, Finance, Internal Audit and Procurement departments.

**q) 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 various commercial banks at the end of the financial year.

**r) Comparative figures**

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

**KENYA BUREAU OF STANDARDS  
REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

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

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

The preparation of the KEBS financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However,

uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods

**a) Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. KEBS based its assumptions and estimates on parameters available when the 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 KEBS.

**b) Going Concern**

The financial statement has been prepared on a going concern basis and it is assumed the KEBS will remain a going concern for at least the next twelve months from the date of this statement.

**c) 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:

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

KEBS recognises useful lives and residual values of assets as follow:

- i. Buildings the leased period-99years
- ii. Equipment 10 years
- iii. Computer 3 years
- iv. Motor vehicle 5 years
- v. Intangible assets (Software) -3 years
- vi. Free hold Land and Work in Progress is not depreciated.

**d) Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 16.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date. The provision for bad debts is specific.

**KENYA BUREAU OF STANDARDS**  
**REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

**e) 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, 2018**