

REPORT OF THE AUDITOR-GENERAL ON EXPORT PROCESSING ZONES AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Export Processing Zones Authority (EPZA) set out on pages 1 to 35, which comprise the statement of financial position as at 30 June 2017, and the statement of profit or loss and other comprehensive income, the statement of changes in equity, 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 provisions of the Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and the 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 Export Processing Zones Authority as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with Export Processing Zones Authority Act, Cap 517 of 1993 (Revised) of the Laws of Kenya.

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

Basis for Qualified Opinion

1. Property, Plant and Equipment

1.1. Land

As previously reported, included in property, plant and equipment balance of Kshs.10,433,412,816 as at 30 June 2017 are two parcels of land Ref:LR.No.Ololoitokoshi/Kitengela/61 and 70, measuring two hectares with a book value of Kshs.2,250,000. Although the parcels of land were acquired and gazetted through Gazette Notice Nos.2802 and 2803 of July 1991, the Authority had not obtained the respective ownership documents as at 30 June 2017. As a result, it is not possible to confirm the two pieces of land are legal property of the Authority.

1.2. Boreholes

In 2007, the then Ministry of Water and Irrigation Development sunk two boreholes on EPZA land, one at a disputed parcel of land in Kitengela Township and the other on the

Authority's premises adjacent to the police post. The management has indicated that ownership of the boreholes was handed over to the Authority without formal documentation and that the boreholes have been tested and confirmed to be viable. However, no evidence has been provided for audit review to confirm that the two boreholes have been valued and recognized as assets of the Authority. As a result, it is not possible to confirm that the net assets balance of Kshs.10,433,412,816 reflected in the statement of financial position is fairly stated.

1.3. Valuation of Assets

Although the statement of financial position reflects a balance Kshs.10,433,412,816 under property, plant and equipment as at 30 June 2017, the last valuation of the Authority's assets was conducted in 2011. Consequently, the Authority has not valued its assets in the last seven (7) years to take cognizance of the drastic change in their value contrary to International Accounting Standard No.16 which requires property, plant and equipment to be revalued after every five years.

In the circumstances, it has not been possible to confirm that the property, plant and equipment balance of Kshs.10,433,412,816 as at 30 June 2017 is fairly stated.

2. Trade and Other Receivables

As reported in 2015/2016, included in trade and other receivables balance of Kshs.568,802,719 as at 30 June 2017 is an amount of Kshs.11,176,569 which relates to advances, outstanding imprest and salary advances issued to ex-staff. The balance includes Kshs.8,690,785 being salary advance of Kshs.7,709,866 and imprest of Kshs.980,919 issued to the former Chief Executive Officer (CEO) of the Authority without approval from the Board of Directors. The advances were issued in disregard to Government Regulation (H10) in existence then and the Authority's staff manual governing salary advances. The sum of Kshs.980,919 granted to the CEO as imprest was supposed to have been surrendered within 48 hours after completion of the assignment. Failure to surrender the imprest amounted to violation of regulations and abuse of office by the former Chief Executive Officer.

Consequently, the accuracy and recoverability of the staff debtors balance of Kshs.11,176,569 as at 30 June 2017 cannot be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAI's). I am Independent of the Export Processing Zones Authority 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 of my qualified opinion.

Key Audit Matters

Key audit matters are those matters which, in my professional judgement, are of most significance in the audit of financial statements. Except for the matters described in the Basis for Qualified Opinion section, there were no other Key Audit Matters to communicate in my report.

Other Matter

Lack of Clarity on Establishment of Leather Industrial Park

The Authority entered into a Memorandum of Understanding (MOU) with the Kenya Leather Development Council on 8 December 2015 for the establishment of a leather industrial park in Machakos County. The MOU provided that the park was to be built on a portion of plot LR NO.23961 measuring 301.1 hectares owned by EPZA and located at Kinanie in Machakos County. However, the actual acreage of the land to be alienated for the purpose was not indicated and the MOU did not outline the specific roles to be performed by each party and the agreed time frame for construction works. The manner in which the park was to be managed and the revenues expected to be generated therefrom and how these would be shared were not defined. In addition, it was not clear which of the two institutions was to incorporate in its books the operations and the ownership of the industrial park.

In the circumstances, there is lack of clarity on this major investment expected to be established on the Authority's land.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the Authority or to cease operations or have no reliable 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.

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

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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. 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.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority'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 Authority 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 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 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

19 September 2018