

REPORT OF THE AUDITOR-GENERAL ON KENYA INDUSTRIAL ESTATES LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Industrial Estates Limited set out on pages 28 to 77, which comprise the statement of financial position as at 30 June 2017, statement of profit or loss and other comprehensive income, 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 the 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 matter 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 Industrial Estates Limited as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Companies Act, 2015.

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. Financial Performance of the Company

During the year under review, the Company reported a loss before tax of Kshs.125,109,000 (2015/2016: loss of Kshs.174,030,000) which brought the cumulative reserves to a negative balance of Kshs.2,948,028,000. In addition, the statement of financial position as at 30 June 2017 reflects total current liabilities of Kshs.1,564,251,000 against total current assets of Kshs.256,490,000 resulting in a negative working capital of Kshs.1,307,761,000. As reported in previous years, the company is technically insolvent and its existence as a going-concern is dependent upon continued support by the National Government and creditors.

2. Trade and Other Receivables

2.1. Staff Receivables

The trade and other receivables balance of Kshs.36,098,000 as at June 2017 includes an amount of Kshs.3,861,290 being staff advances and imprests. A sum of

Kshs.2,171,247 included in the balance relates to advances and imprests for staff who have since left the Company's service.

In the circumstance, it has not been possible to determine whether the long outstanding staff advances and imprests totalling Kshs.3,861,290 are wholly recoverable.

2.2. Non-movement of Trade Receivables

The trade and other receivables balance as at 30 June 2017 includes sundry debtors totalling to Kshs.18,621,631 out of which debts amounting to Kshs.13,805,486 did not record any decrease from the respective balances shown in the previous financial year's financial statements. No explanation has been provided by management why these long outstanding balances are carried forward from year to year without being recovered or appropriate action taken against the debtors.

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am Independent of the Kenya Industrial Estates Limited 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 that, in my professional judgement are of most significance in the audit of financial statements. Except for the matter described in the Basis for Qualified Opinion and Other Matter sections of my report, there were no Key Audit Matters to communicate in my report.

Other Matter

Installation of Biometric System

As similarly reported in the previous year, the Company on 23 November 2012 entered into a contract with a local firm at a sum of Kshs.8,918,688 for delivery, installation and commissioning of a biometric system. Further, the contracted company was to configure the access control software and all the required reports including attendance reports. Although the system was installed paid for and captured in the Company's records as office equipment purchased, a visit to the head office and some branches revealed that the system may not be meeting its purpose because its entry and exit doors remain open at all times and as a result, access to the Company's Offices is not restricted. Further, whereas the system was intended to provide reports on staff attendance at work, it is, as installed, not foolproof because it is possible for staff to clock in for work and walk out immediately without clocking out and come back to clock out at the close of business each day. Therefore the effectiveness of the system relies on the integrity and honesty of the Company's staff rather than its own inbuilt control features which it lacks.

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 Financial Reporting Standards 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to sustainability of services and using the going-concern basis accounting, unless the management intends to liquidate the Company or cease operations or have no realistic alternatives 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 Company'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 misstatements, 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 Company'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 Company's ability to continue as a going concern. 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 Company to cease to continue as a going concern.
- 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 company 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act 2015, I report based on my audit, that:

- i. 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;
- ii. in my opinion, adequate accounting records have been kept by the Company so far as appears from the examination of those records; and,
- iii. The Company's financial statements are in agreement with the accounting records and returns.



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

Nairobi

20 September 2018