

# **REPORT OF THE AUDITOR-GENERAL ON KENYA INDUSTRIAL RESEARCH AND DEVELOPMENT INSTITUTE FOR THE YEAR ENDED 30 JUNE 2017**

---

## REPORT ON THE FINANCIAL STATEMENTS

### **Qualified Opinion**

I have audited the accompanying financial statements of Kenya Industrial Research and Development Institute set out on pages 1 to 23, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, the statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actuals for the year then ended and the summary of the significant accounting policies and other explanatory information in accordance with the provisions of the article 229 of the Constitution 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 Industrial Research and Development Institute as at 30 June 2017, and 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 Science, Technology and Innovation Act, 2013 of Laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis of Qualified Opinion 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. Accounts Receivable**

##### **1.1. Long Outstanding Balances**

The account receivables balance of Kshs.12,756,945 as at 30 June 2017 includes an amount of Kshs.2,460,000 being reimbursement claims lodged by the Institute with the National Industrial Training Authority (NITA) in respect of industrial attachment services rendered for the Authority. As reported in the previous year, the claims have been outstanding for a considerable long time without evidence of any efforts having been initiated for their recovery.

In the circumstances, the Institute is likely to lose funds unless management establishes proper debt collection mechanisms.

##### **1.2. Non-Recovery of Excess Medical Expenditure**

Included in the account receivables balance of Kshs.12,756,945 is Kshs.3,374,390 being excess medical expenditure due for recovery from some members of staff. Out of this

balance, an amount of Kshs.1,581,599 relates to officers who have passed on. The accounting policies disclosed in the financial statements do not give clear guidance on provisions to be made in case of death of a staff member. In addition, the rate of recovery of the expenditure is, when compared to the respective outstanding amounts, evidently very low with some balances having not been recovered at all.

In the circumstances, the recoverability of the account receivables balance of Kshs.12,756,945 is doubtful.

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

### **2.1. Revaluation of Non-Current Assets**

The statement of financial position reflects a balance of Kshs.4,089,999,956 under property, plant and equipment as at 30 June 2017. However, as reported in the previous year, the last valuation for these assets was conducted over 38 years ago in 1980. The long delay contravenes International Accounting Standard No.16 which stipulates that property, plant and equipment be revalued after every five years.

Consequently, it has not been possible to confirm that the property, plant and equipment balance of Kshs.4,089,999,956 as at 30 June 2017 is fairly stated.

### **2.2. Procurement of Leather Processing and Production Machinery**

During the year 2015/2016, the Institute entered into a contract agreement with a local company for the supply, installation, training and commissioning of leather processing and production machinery at a total cost of Kshs.373,163,111. A review of the procurement process revealed that the contracted company had partnered with another company from Italy in a joint venture to execute the contract contrary to Section 2.1.3(i) of the contract agreement, signed between the Institute and the company on 27 March 2015.

Further, contrary to Section 2.1.3(ii) of the contract agreement, both companies did not submit audited accounts for the previous three (3) years as required in requirements set in the tender to confirm the financial capability of bidders. In particular, the first company did not meet the mandatory requirement considering it was registered on 9 May 2012 and therefore was less than three years old at the time of tendering. Non-adherence to procurement procedures may lead to unnecessary legal challenges by dissatisfied bidders leading to delays in project implementation.

Whereas the leather processing equipments were destined for the Kisumu regional offices, an audit verification at the station in October 2016, revealed that some of the machines delivered were not installed and commissioned mainly due to lack of appropriate space. It was not clear why the Institute went ahead to procure and purchase the machines without having arranged for adequate and appropriate space for their installation. Failure to have the machines installed in a secure place has left them vulnerable to vandalism and

breakdown and has withheld from the intended beneficiaries economic and other benefits envisaged at the time the project was initiated.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Industrial Research and Development Institute 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.

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

### **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 Institute's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Institute is expected to cease operations.

Management is also responsible for 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 Institute'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 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 Institute'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 Institute's ability to continue as a going concern or 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 Institute to cease to continue as a going concern or 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 Institute 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**

**10 May 2018**