

REPORT OF THE AUDITOR-GENERAL ON KENYA MEAT COMMISSION FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Kenya Meat Commission set out on pages 12 to 24, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, as required by Article 229(6) of the Constitution, I have not been able to obtain sufficient appropriate audit evidence to confirm that public money has been applied lawfully and in an effective way.

Basis for Disclaimer of Opinion

1. Non-Disclosure of Material Uncertainty Related Going Concern

The statement of comprehensive income for the year ended 30 June, 2017 reflects a loss of Kshs.296,012,545 (2016 – a loss of Kshs.40,144,170) which increased the accumulated retained earnings to a negative balance of Kshs.398,405,586 (2016 – a negative balance of Kshs.102,393,041). In addition, the statement of financial position as at 30 June, 2017 reflects total current assets of Kshs.566,873,660 and total current liabilities of Kshs.600,196,380 resulting in a negative working capital of Kshs.33,322,720. The Commission was, therefore, technically insolvent as at 30 June 2017 and its continued existence is based upon an assumption of receiving financial support from the Government and the goodwill of its creditors. This material uncertainty casts significant doubt on the ability of the Commission to continue as a going concern. The management has, however, not made any disclosures regarding the uncertainty or expected continued government financial support in the near future.

2. Incompleteness of Records and Inaccuracy of the financial statements

- (i) The Commission did not maintain a proper record of all its transactions. This is evidenced by the variances observed between the financial statements and the trial balance as follows:

Item	Financial Statements (Kshs)	Trial Balance (Kshs)	Variance (Kshs)
Accounts Receivable	387,782,028	467,714,319.45	79,932,291.45
Domestic Debtors	347,749,060	387,782,028	40,032,968
Staff debtors	179,615	2,285,439	2,105,824
Rental Debtors- Court cases	Nil	52,149,984	52,149,984
General factory expenses	18,042,511	17,452,215	590,296
Power & Fuel	50,964,074	51,504,074	540,000
Closing Stock	61,131,940	43,095,940	18,036,000
Professional fees Commissioners expenses	10,869,252	10,916,028	466,776
Travelling & Accommodation	15,568,389	15,765,973	197,584
Factory repairs & maintenance	39,440,874	38,694,279	746,595
	14,499,878	13,160,794	1,339,084

- (ii) In addition, the opening balances for the following items in the financial statements for 2016/2017 differed with the previous year's audited financial statements as shown below:

Item	Audited 2015/2016 Account figures (Kshs)	2016/2017 Account Opening Balance figures (Kshs)	Variance (Kshs)
Provision for bad debts	80,911,675	53,524,385	27,387,290
Net trade and other receivables	295,494,586	219,961,382	75,533,204
Cash in hand	9,104,707	Nil	9,104,707
Athi River	1,021,525	102,153	919,372
Trade Creditors	166,816,776	170,431,715	3,614,939
Net trade and other payables	233,194,969	350,715,931	117,520,962
Working capital account	Nil	1,437,356	1,437,356
Closing Stock	63,653,682	62,613,286	1,040,396

- (iii) The statement of comprehensive income reflects operating expenses amounting to Kshs.152,891,652, which as disclosed in Note 16 to the financial statements includes depreciation expense of Kshs.75,891,872. A recalculation of the charge for

the year revealed that depreciation expense amounted to Kshs.75,925,177. The effect is that the depreciation charge has been understated by Kshs.33,305.

- (iv) The other operating expenses of Kshs.152,891,652 also includes an amount of Kshs.14,499,878 disclosed in Note 16 to the financial statements as factory repairs. The expenditure on factory repairs of Kshs.14,499,878 however differs with the amount of Kshs.14,111,894 reflected in supporting schedules.
- (v) The statement of comprehensive income reflects an amount of Kshs.6,597,517 under finance costs, which is referenced to Note 18 to the financial statements. Note 18 does not exist.
- (vi) Note 17 to the financial statements reflects an amount of Kshs.470,000,000 under government grants. However, the Note 17 to the financial statements shows a nil balance.
- (vii) The statement of financial position reflects under cash and cash equivalents a balance of Kshs.117,959,692 as at 30 June 2017 and a comparative figure of Kshs.401,135,723 as at 30 June 2016. However, Note 5 to the financial statements reflects an amount of Kshs.391,111,644 as at 30 June 2016. This anomaly has not been clarified.

Consequently, the completeness, accuracy and validity of the Commission's financial transactions for the year ended cannot be confirmed. In addition, the accuracy of the balances reflected in the financial statements is doubtful due to the unsupported variances in the opening balances.

3. Performance During the Year

3.1 Income

The statement of comprehensive income for the year ended 30 June, 2017 reflects sales amounting to Kshs.332,165,635 (2016 – Kshs.239,188,602). However, records provided reflects sales amounting to Kshs.343,754,947, which differs with the figure reflected in the financial statements by Kshs.11,589,947. The difference has not been reconciled or explained. In addition, although the sales figure was indicated to include both meat and other by-products like hides and skins, no documentary evidence was provided to support the sales figures.

Other operating income figure of Kshs.31,016,803 includes as disclosed in Note 14 to the financial statements, rent income of Kshs.30,052,300, which is a drop from the previous year's figure of Kshs.30,172,300 by Kshs.120,000. No reason was given for the drop in the rent revenue. In addition, no lease agreements between the Commission and the tenants was provided for audit review. Consequently, the accuracy and completeness of the rent income cannot be confirmed.

In absence of sufficient evidence, it has not been possible to establish and verify the sums of money received, banked and income records maintained in the year under review.

3.2 Cost of Sales

The statement of comprehensive income reflects an amount of Kshs.829,636,979 (2016 – Kshs.283,143,857) under cost of sales. The gross margin ratio deteriorated over the period from an amount of Kshs.43,955,255 to Kshs.497,471,344 or a drop of 150% of sales, compared to a loss of 15% over the previous year.

The significant drop was explained to have been as a result of National Government's offtake programme that directed the Commission to buy and slaughter animals for the locals to alleviate both hunger and loss of livestock. However, no record of the number of animals bought and slaughtered under this programme was provided for audit review. In addition, no documentary evidence was provided to indicate that the Commission had been tasked with the responsibility of buying of livestock and slaughtering them for local communities.

Consequently, the propriety of the cost of sales figure of Kshs.829,636,979 disclosed in the financial statements cannot be confirmed.

3.3 Administrative Expenses

The statement of comprehensive income as at 30 June 2017 reflects administrative expenses of Kshs.153,263,870 (2016 – Kshs.230,877,568), a decrease of Kshs.77,613,698. The decrease was mainly under other administration expenses and professional fees. The other administration expenses variously include, purchasing costs, training expenses, salaries and wages and other expenditure that could have been properly disclosed and presented under their rightful expenditure category. In addition, professional fees comprise of legal fees paid to legal firms.

It was observed that other administration costs decreased from Kshs.136,833,250, in 2015/2016 to Kshs.40,590,434 in 2016/2017 or a drop of Kshs.96,242,816. No explanation was provided for this abnormal drop in expenditure considering that the operations of the Commission were more than the previous year.

Consequently, the completeness, accuracy and propriety of the administrative expenses totaling Kshs.153,263,870 during the year cannot be confirmed.

3.4 Other Operating Expenses

The statement of comprehensive income further reflects under other operating expenses an amount of Kshs.152,891,652 as at 30 June 2017 (2016 – Kshs.239,975,342). The expenditure decreased from the previous year's amount by Kshs.87,083,690. The decrease was mainly on indirect wages Kshs.36,138,108 and in provision for bad and doubtful debts Kshs.54,335,906. No explanation was provided for

the significant decline in the two expenditure items, considering that the activities of the Commission significantly increased.

Consequently, the completeness, accuracy and validity of the other operating expenses totalling Kshs.152,891,652 cannot be confirmed.

3.5 Government Grants

The statement of comprehensive income reflects government grant in 2016/2017 of Kshs.470,000,000 (2015/2016 – Kshs.450,000,000). However, the performance of the Commission continued to deteriorate despite the financial support. No plausible reason was advanced for this continued loss making.

4. Property, Plant and Equipment

4.1 Unsupported Property, Plant and Equipment Balances

The statement of financial position reflects under property, plant and equipment a balance of Kshs.1,966,843,964 as at 30 June 2017 and includes balances of Kshs.381,200,000, Kshs.1,066,121,026, Kshs.517,537,058 and Kshs.1,985,880 in respect of land and improvements, buildings, plant and machinery and office equipment. However, as similarly reported in the previous years, the balances cannot be verified in absence of a fixed assets register and a detailed analyses and records of property, plant and equipment.

4.2 Ownership of Property

(i) Ownership of Land

As reported in the previous years, the Commission in 1984 secured a loan from National Bank of Kenya through a debenture and charged 13 parcels of its land as security. The Government in the year 2007 repaid all loans owed by various Government entities, including the Kenya Meat Commission, effectively lifting the charge on the Commission's parcels of land. However, to date, the Commission has not obtained or received back the 13 original title deeds from the bank. No explanation has been provided on why the bank was still holding the titles long after the loans were settled.

Information available indicates that the bank has acknowledged that it is only holding 10 title deeds, not 13 that the Commission deposited. No explanation has been provided on the whereabouts of the following 3 titles deeds: L.R. No.17/67 – Kitisuru, Nairobi; L.R. No.1504/8 – Beacon Ranch, Mavoko; and L.R. NO.10021 (L.R. 17873) – Sheep and Goat Ranch, Kitengela, Kajiado. Further, L.R. No.17/67-Kitisuru, Nairobi which was also one of the missing title deeds was alleged to have been sold on 29 October 1999.

In addition, a search carried out at the Ministry of Lands and Physical Planning on 4 August 2016, on the above three titles traced the records for land L.R. No. 10021 (L.R.17873) – Sheep and Goat Ranch, Kitengela, Kajiado only. The records (files) for

L.R. No.17167 – Kitsuru, Nairobi and L.R No.1504/08 – Beacon Ranch, Mavoko could not be traced. It is, therefore, not possible to confirm ownership of the two parcels of land. Further, L.R. No. 2787/444-Nanyuki weighbridge parcel has been encroached on.

(ii) Irregular Sale of the Commission’s Land

As was similarly reported in the previous years, the Commission’s parcels of land: L.R. No. MN/1/258- Shimanzi, Mombasa; L. R. No. 42/40 – Riverside Drive, Nairobi, and L. R. No.17/67 – Kitisuru, Nairobi, were sold on 2nd April 2008, 1st April 2010 and 29th October 1999 at a price of Kshs.12,000,000, annual rent of Kshs.400,000, and Kshs.18,250,000 respectively. However, no documentary evidence has to date been provided to confirm that appropriate approvals by the National Treasury and the parent Ministry were granted as required by Section 13(1)(c) of the State Corporations Act (CAP 446). In addition, it has not been possible to confirm whether proper procedures were followed in the disposal; and that the sales proceeds were received and receipted by the Commission.

(iii) Obsolete Plant, Machinery and Equipment

The property, plant and equipment balance of Kshs.1,966,843,964 as disclosed in Note 2 to the financial statements includes plant and machinery and office equipment with net book values of Kshs.517,537,058 and Kshs.1,985,880, respectively. A physical verification of the above showed that unquantified value of plant and machinery were obsolete and not in a working condition. In addition, a large part of plant and machinery were idle due to underutilization and some had broken down without repairs having been initiated.

Further, as disclosed in Note 2 to the financial statements most of the office equipment are fully depreciated but are still in use while equipment of unquantified value is obsolete. The fully depreciated equipment with economic value have not been revalued to reflect their fair values in the financial statements.

Consequently, the ownership, value, accuracy and completeness of the property, plant and equipment as disclosed in these financial statements cannot be confirmed.

5. Trade and Other Receivables

5.1 Long Outstanding Balances

The statement of financial position reflects trade and other receivables net balance of Kshs.387,782,028 as at 30 June 2017 (2016 – Kshs.295,494,586). As shown under Note 4 to the financial statements, the balance includes domestic debtors of Kshs.347,749,060 and rental debtors of Kshs.33,780,855 out of which, domestic debtors of Kshs.278,063,816 and rental debtors Kshs.27,827,982 had been outstanding for over three months.

Rental debtors balance of Kshs.33,780,855.00 was also not reflected in the trial balance. In addition, the financial statements show a nil balance on rental debtors with

court cases as compared to the previous financial year balance of Kshs.63,292,484. No explanation has been provided on whether the amount was recovered or written off.

Under the circumstance, the recoverability of the trade and other receivables balance of Kshs.387,782,028 in full cannot be confirmed.

5.2 Unsupported Debtors

The net trade and other receivables balance of Kshs.387,782,028 also includes deposits of Kshs.25,496,869 which have not been supported by any documentary evidence. Consequently, the validity and completeness of these deposits cannot be ascertained.

6. Inventories

The statement of financial position reflects a balance of Kshs.61,131,940 under inventories as at 30 June 2017 and as disclosed under Note 3 to the financial statements includes meat and meat products- Kshs.16,440,033, engineering- Kshs.16,866,836, general stores- Kshs.9,789,072 and live animals- Kshs.18,036,000. However, the inventories do not include by-products like hides, skins and other related by-products. Under the circumstances, the inventories balance of Kshs.61,131,940 is not fairly stated.

7. Cash and Cash Equivalents

The statement of financial position reflects a cash and cash equivalents balance of Kshs.117,959,692 as at 30 June 2017 while the bank reconciliation statement provided for audit reflects an amount of Kshs.187,201,266, resulting in unreconciled and unexplained difference of Kshs.69,241,574.

As disclosed in Note 5 to the financial statements, the balance of Kshs.117,959,692 comprised of balances held in fourteen bank accounts (including M-Pesa Account) and cash balances held in three depots as at 30 June 2017. However, bank reconciliation statements for nine bank accounts were not provided for audit review.

In view of the above, it has not been possible to confirm that all bank transactions executed during the year were recorded in the cash books and whether the cash and cash equivalents balance of Kshs.117,959,692 reflected in the financial statements as at 30 June 2017 is fairly stated.

8. Trade and Other Payables

The financial statements reflects trade and other payables balance of Kshs.265,364,189 which as disclosed in Note 10 to the financial statements comprises of trade creditors Kshs.194,253,159 and other creditors Kshs.71,111,030. However, the other creditors balance of Kshs.71,111,030 is not reflected in the trial balance.

In addition, the trade and other payables comparative figure for 2015/2016 of Kshs.236,809,908 differs with the corresponding figure of Kshs.350,715,931 disclosed in Note 10 to the financial statements.

Under the circumstances, it has not been possible to ascertain the accuracy and completeness of trade and other payables balance of Kshs.265,364,189 as at 30 June 2017.

9 Rehabilitation Grant

As reported in the previous year, the statement of financial position as at 30 June 2017 still reflect rehabilitation grant of Kshs.98,000,000, which has been brought forward from previous years. No information has, however, been provided on the nature of rehabilitation that the funds were meant for. It is not clear, whether the grant is still set aside for the intended rehabilitation. No reason has been given for the failure to spend the amount on rehabilitation. Under the circumstances, the existence of the amount is doubtful.

10. Bank Overdraft

The statement of financial position as at 30 June 2017 reflects a nil balance under overdraft, which had a comparative balance of Kshs.1,437,356 in the previous year. The overdraft account was being operated with the Cooperative Bank under Account 4000029. No evidence has been provided to show that appropriate authority from the National Treasury was obtained before opening of the overdraft account. During the year under review, no record of operations was provided on the account for audit review. In addition, no evidence was provided to show that the account has been closed or ceased operations.

11. Government Loans

As reported in the previous year and as disclosed in Note 9 to the financial statements, the Government advanced the Commission loans amounting to Kshs.300 million: Kshs.200 million in 2009/2010 and Kshs.100 million in 2010/2011, at an interest rate of 2% per annum. The principal amount was to be repaid in twenty semi-annual consecutive instalments commencing 30 June 2010. However, to date, the Commission has not settled either the principal instalments or the interest on the loans as provided for in the loan agreements and as at 30 June 2017, the accrued interest amounting to Kshs.34,832,191 had been capitalized in breach of the terms of the loan agreements signed with the Government.

The loan schedules provided indicates total interest up to 30 June 2017 of Kshs.41,562,318 on the two loans while the Government loans balance of Kshs.334,832,191 reflected in the statement of financial position includes an amount of Kshs.34,832,191. The difference of Kshs.6,730,127 between the two records which represents interest for the year under review differs with Kshs.6,597,517 reflected in the statement of comprehensive income.

Further, the Government loans balance of Kshs.334,832,191 shown in the statement of financial position differs with the balance of Kshs.320,484,816 reflected in Note 9 to the financial statements by Kshs.14,347,375.

12. Financial Statements and Disclosure and Presentation

(i) Statement of comparison of budget and actual amounts

The Commission did not include statement of comparison of budget and actual amounts in its financial statements. In the absence of the statement of comparison of budget and actual amounts, it is not possible to determine whether the Commission's resources as applied were planned and budgeted for.

(ii) Financial statements presentation

The financial statements as presented are not consistent with the guidelines provided by the Public Sector Accounting Standards Board. The disclosures are not adequate and notes to the financial statements are not consistent with the requirements of the Board.

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 Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the Commission's or to 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.

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

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

My responsibility is to conduct an audit of the Commission's financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matter described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

I am independent of Kenya Meat Commission 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.



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

Nairobi

03 July 2018