

# **REPORT OF THE AUDITOR-GENERAL ON KENYA PLANT HEALTH INSPECTORATE SERVICES FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Kenya Plant Health Inspectorate Services set out on pages 24 to 46, which comprise the statement of financial position as at 30 June 2017, and the 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 effects 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 Plant Health Inspectorate Service 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 the Kenya Plant Health Inspectorate Service Order, 1996.

In addition, as required by Article 229(6) of the Constitution, except for the matter described in the basis for qualified opinion section of my report, I confirm that based on the procedures performed, 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**

#### **Property, Plant and Equipment**

As previously reported, property, plant and equipment balance of Kshs.1,159,442,000 as at 30 June 2017 includes eleven (11) parcels of land valued at Kshs.264,666,000 situated in Nakuru, Muguga, Kitale, Kabete, Embu, Karen and Kisumu. However, and except for land in Karen, Embu, Kabete and Kisumu, the Inspectorate does not possess ownership documents for the others. Further, out of the 125.3 hectares of land in Kitale held by third parties, the Inspectorate has so far recovered 34.09 hectares while a balance of 91.21 hectares is still held by private developers or occupied by squatters.

Although the management has made several attempts to repossess the parcel of land in Kitale that is in possession of third parties including engaging a lawyer at a fee of Kshs.1,000,000 to facilitate production of the title deed and initiated the

process of transferring the ownership of Nakuru and Muguga parcels of land from KARLO (formerly KARI) to KEPHIS, it is not clear if and when title deeds will be obtained.

Consequently, it has not been possible to confirm that property, plant and equipment balance of Kshs.1,159,442,000 as at 30 June 2017 is fairly stated.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAs). I am independent of the Kenya Plant Health Inspectorate Service 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.

### **Material Uncertainty Related to Sustainability of Services**

The statement of financial performance on page 24 reflects a deficit of Kshs.43,359,000 for the year ended 30 June 2017 (2016 – a deficit of Kshs.158,383,000). The statement of financial position on page 25 also reflects current assets totaling Kshs.176,140,000 and current liabilities totalling Kshs.197,050,000 as at 30 June 2017, respectively resulting to a negative working capital of Kshs.20,910,000. This trend, unless reversed, may affect the Inspectorate's ability to sustain its services in the long term. My opinion is not modified in respect of this matter.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgement, were of most significance to the audit of the financial statements for the current year. Except for matters described in the Basis for Qualified Opinion section, 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 Inspectorate's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern accounting assumption unless the Government either intends to liquidate the Inspectorate or to cease its operations, or has 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 Inspectorate'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 of Kenya. 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 in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

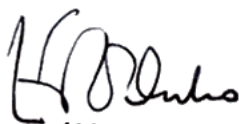
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting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

**21 March 2018**