

# **REPORT OF THE AUDITOR-GENERAL ON KENYA VETERINARY VACCINES PRODUCTION INSTITUTE 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 Veterinary Vaccines Production Institute set out on pages 1 to 25, 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 Veterinary Vaccines Production Institute 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 State Corporations Act, Cap 446.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Emphasis of Matter sections of my report, based on the audit 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**

**(a)** As previously reported, the Government allocated the Institute 98.3 hectares of land registration L.R. No.209/11969 on which the Institute's headquarters is located. In December 1994, the management applied to the Commissioner of Lands for consent to sub-divide the land into nine (9) separate parcels, without the approval of the Treasury and the Parent Ministry as required by Section 13 (c) of the State Corporations Act (Cap 446). Information available indicates that the irregularly sub-divided parcels were separately disposed to private developers without the approval of the Treasury and the Parent Ministry. A review of the position during the year under review indicated that the irregularly disposed parcels had not been recovered as at 30 June 2017.

**(b)** As similarly reported in previous years, the property, plant and equipment balance of Kshs.644,398,000 as at 30 June 2017 excludes an undetermined value of land at the

Kibiko holding group measuring 500 acres and in respect of which no title deed has been issued. In addition, the Institute has not obtained a title deed for the land in Kabete, on which its production plant valued at Kshs.500 million stands. Therefore, it has not been possible to verify the ownership of these properties.

**(c)** In 1990, the Parent Ministry allowed the Institute to use land Ref. L.R. No.27628 measuring approximately 151.2 hectares, situated in Limuru. At the time of allocation, the management of the Institute was under Kenya Agricultural Research Institute (KARI). Consequently, the title deed for the land was processed and issued in the name of KARI. The Institute was subsequently separated from KARI and became a legally independent organization. Although the Institute has continued to use the land as initially allocated, the title deed still remains in the name of KARI.

## **1.2 Motor Vehicles**

As similarly reported in the previous year, included in the property, plant and equipment balance of Kshs.644,398,000 are five (5) motor vehicles whose log books are registered in the name of Kenya Agriculture Research Institute. No explanation has been provided for this anomaly, a result of which, the ownership and valuation of these vehicles as reflected in the financial statements cannot be ascertained. In addition, the vehicles continue lying idle in the premises of the Institute without either being repaired or disposed as required by Sections 163 to 166 of the Public Procurement and Disposal Act, 2015.

## **2. Trade Payables and Other Payables**

As previously reported, trade payables balance of Kshs.25,539,000 reflected in the statement of financial position as at 30 June 2017 includes rates accruals amounting to Kshs.13,180,000 that has remained unpaid for periods going back to as far as 1998 and continued to attract interest and penalties. However, the amount of interest and penalties payable has not been determined and included in the trade and other payables balance of Kshs.25,539,000. In addition, no explanation has been provided for failure to clear the accrued rates over the years.

## **3. Receivables**

The statement of financial position reflects an amount of Kshs.125,122,000 under receivables as at 30 June 2017, and as disclosed under Note 17 to the financial statements includes trade receivables totalling Kshs.124,551,000. Included in the trade receivables are long outstanding amounts, totalling Kshs.53,372,000 that have remained uncollected for more than one year. The provision of Kshs.1,246,000 made against the long outstanding debt appear inadequate as the debt's collectability appear doubtful.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Veterinary Vaccines Production

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.

## **Emphasis of Matter**

### **Land under Legal Disputes**

I wish to draw attention to Note 20 to the financial statements, which indicates that, included in the value of land of Kshs.343,000,000 under property, plant and equipment are three parcels of land with four civil cases in court as it is alleged that they had been grabbed. Three of the cases HCCC ELC No.454 and 455 both of 2009 and HCCC ELC No.1066 of 2016 involves land measuring 1.87, 2.023 and 0.4047 hectares respectively. While the fourth case HCCC No. 1015 of 2016 involves a passage of 200 meters long.

No provision has been made in these financial statements regarding this material uncertainty as the cases have not been determined and concluded. My opinion is not qualified in respect of this matter.

## **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Emphasis of Matter sections 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 Kenya Veterinary Vaccines Production Institute's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Kenya Veterinary Vaccines Production Institute'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 Kenya Veterinary Vaccines Production 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 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 scepticism 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 Kenya Veterinary Vaccines Production 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 Kenya Veterinary Vaccines Production Institute'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 Kenya Veterinary Vaccines Production Institute's 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 Institute's 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 to 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**

**05 June 2018**