

# **REPORT OF THE AUDITOR-GENERAL ON KENYA VETERINARY VACCINES PRODUCTION INSTITUTE FOR THE YEAR ENDED 30 JUNE 2018**

---

## **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 26, which comprise the statement of financial position as at 30 June 2018, and the statement of 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 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 Veterinary Vaccines Production Institute as at 30 June 2018, 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 and the Public Finance Management Act, 2012.

### **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 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 2018.

**(b)** As similarly reported in previous years, the property, plant and equipment balance of Kshs. 621,739,000 as at 30 June 2018 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**

The property, plant and equipment balance of Kshs.621,739,000 as disclosed in Note 20 to the financial statements includes motor vehicles with a nil net book value. The Institute has twelve such motor vehicles and most of them are still in use. In addition, five of the motor vehicles are registered in the name of the defunct Kenya Agriculture Research Institute - (KARI). No reason has been given for the failure to have the vehicles transferred to the name of the Institute. Further, no efforts have been made to dispose of the old and unused vehicles that continue to be idle.

In view of the circumstances indicated above, the accuracy of property, plant and equipment balance of Kshs.621,739,000 as at 30 June 2018 can not be confirmed.

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

As previously reported, trade payables balance of Kshs.25,001,000 reflected in the statement of financial position as at 30 June 2018 includes rates accruals amounting to Kshs.13,180,000 that have remained unpaid for periods going back to as far as 1998 and continues 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.25,001,000. In addition, the accrued rates are attributed to pieces of land that are disputed and whose matters are in court. Consequently, the accuracy and completeness of trade payables balance of Kshs.25,001,000 as at cannot be confirmed.

## **3. Receivables**

The statement of financial position reflects a balance of Kshs.191,936,000 under receivables as at 30 June 2018, and as disclosed under Note 17 to the financial statements includes trade receivables totalling Kshs.192,159,000. Included in the trade receivables are long outstanding amounts totalling Kshs.26,134,000 that have remained uncollected for more than a year. The provision of Kshs.1,922,000 made against the long outstanding debt appear inadequate as the debts' 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**

### **1. 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 judgement, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and under Emphasis of Matter sections, I have determined that there are no other key audit matters to communicate in my report.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter(s) described in the Qualified Opinion and under Emphasis of Matter sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **REPORT ON EFFECTIVENESS INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion and under Emphasis of Matter section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

## **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **Responsibilities of Management and Those Charged with Governance**

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 maintaining effective 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 and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the ability of Kenya Veterinary Vaccines Production Institute to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends 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.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

## **Auditor-General's Responsibilities for the Audit**

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.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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.
- 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 ability of Kenya Veterinary Vaccines Production Institute 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 sustaining 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 Kenya Veterinary Vaccines Production 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 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**

**2 May 2019**