

REPORT OF THE AUDITOR-GENERAL ON NATIONAL QUALITY CONTROL LABORATORY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Quality Control Laboratory set out on pages 1 to 28, 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 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 National Quality Control Laboratory 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).

In addition, as required by Article 229(6) of the Constitution, except for the matter described in the Basis for Qualified Opinion and Other Matter sections 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

1.0 Property, Plant and Equipment

As previously reported, the property, plant and equipment balance of Kshs.69,399,127 in the statement of financial position as at 30 June, 2017 excludes an undetermined value of a parcel of land measuring four (4) hectares situated at Upper Hill, Nairobi which was allotted to National Quality Control Laboratory in 1992. The parcel of land was re-allocated to National Quality Control Laboratory in 1995 but was reduced to 2.61 hectares. Available information indicates that out of 2.61 hectares, 1.26 was sold to Kenya- Re by Kenya Media Trust and the remaining 1.35 hectares were taken over by Kenyatta National Hospital. However, a total of 2.35 hectares has since been surrendered back; Kenya-Re 1.0 hectares and Kenyatta National Hospital 1.35 hectares. Further, the National Land Commission has taken part of 1.35 hectares surrendered by Kenyatta National Hospital and donated it to Kenya Urban Road Authority for construction of road without consent of National Quality Control Laboratory. Further information indicates that the 1.35 hectares parcel of land surrendered by

Kenyatta National Hospital is under the survey process. In addition, Kenya Re has since surveyed the 1.0 hectare, for purposes of subdivision for the laboratory, and the subdivision process is ongoing at the National Land Commission. The laboratory has not obtained any ownership documents for the remaining 1.65 hectares and no evidence that the processing of the same is on course.

Consequently, it has not been possible to determine that the property, plant and equipment balance of Kshs.69,399,127 included in the statement of financial position as at 30 June 2017 is fairly stated.

2.0 Cash and Cash Equivalent

The statement of financial position as at 30 June, 2017 reflects cash and cash equivalent balance of Kshs.9,768,493. However, the adjusted cash book balance after casting the entire cash book indicates a cash balance of Kshs.10,276,389 leading to an understatement of Kshs.507,896.

In the circumstance, it has not been possible to confirm the validity and accuracy of the cash and cash equivalent balance of Kshs.9,768,493 included in the statement of financial position as at 30 June 2017.

3.0 Trade and Other Receivables

As previously reported, the trade and other receivables balance of Kshs.58,741,244 included in the statement of financial position as at 30 June, 2017 includes analysis fees totaling Kshs.6,013,120 owed by Kenya Medical Supplies Authority (KEMSA), as disclosed in note 14 to the financial statements, which has been outstanding for more than twelve (12) years. In addition, it includes other receivables from United Nations Development Programme and Government of South Sudan amounting to Kshs.1,613,197 which has been outstanding for more than two (2) years. A provision of three percent (3%) for bad and doubtful debts has been made in these accounts in respect of the outstanding analysis fees but the provision may be inadequate.

Consequently, it has not been possible to confirm the validity and recoverability of the analysis fees totaling Kshs.7,626,317 and that the trade and other receivables balance of Kshs.58,741,244 included in the statement of financial position as at 30 June 2017 is fairly stated.

4.0 Operating without Board of Directors

During the year under review, the National Quality Control Laboratory operated without board of directors. The Laboratory, therefore, did not comply with the provisions of the Pharmacy and Poisons Act, Cap 244 Section 35F, Laws of Kenya, which states that; (1) There shall be a Board of Management for the Laboratory, which shall consist of nine members to be appointed by the Pharmacy and Poisons Board. (2) A member of the Board of Management appointed under subsection (1) shall hold office for three years but shall be eligible for re-appointment.

Consequently, the Laboratory failed to comply with the provisions of Section 35 F(1) of the Pharmacy and Poison's Act, Cap 244 of the Laws of Kenya.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Quality Control Laboratory 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 judgment, are of most significance in the audit of the financial statements, except for the matter described in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there were no Key Audit Matters to communicate in my report.

Other Matter

Budgetary Control and Performance

The National Quality Control Laboratory had an approved total budget of Kshs. 255,057,000 voted for the financial year 2015/2016. The overall budget absorption was 30% as summarized below.

Item	Budget (Kshs)	Actual (Kshs)	Under Absorption (Kshs)	(%) Under Expenditure
Operating/General	98,668,000	7,525,558	91,142,442	92%
Personnel expenses	50,370,000	22,009,862	28,360,138	56%
Administrative expenses	78,965,000	24,931,700	54,033,300	68%
Board Expenses	3,274,000	722,512	2,551,488	78%
Finance costs	472,000	109,556	362,444	77%
Provision for Audit Fees	180,000	150,000	30,000	17%
Provision for Bad Debts	-	1,762,237	(1,762,237)	0%
Depreciation	23,128,000	18,710,901	4,417,099	19%
Total	255,057,000	75,922,326	179,134,674	

From the above analysis, it is evident that the National Quality Control Laboratory under-spent on all budget lines with operating/general expenses leading to unutilized total allocation of Kshs.179,134,674 or 70%. The implication of this is that more than two thirds of the budgeted activities were not implemented as planned. In this regard, there is need for the management to refocus the budgetary process with a view to coming up with a more realistic budget and better strategies on how to execute the budget to avoid instances on under - utilization of 70%.

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 Laboratory's ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to going concern/ sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Laboratory 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 Laboratory'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 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 Laboratory'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 Laboratory'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 Laboratory to cease as a going concern or 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 Laboratory 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.

A handwritten signature in black ink, appearing to read 'E. R. O. Ouko', with a stylized flourish at the end.

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

Nairobi

10 May 2018