

REPORT OF THE AUDITOR-GENERAL ON NATIONAL QUALITY CONTROL LABORATORY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of National Quality Control Laboratory set out on pages 1 to 36, which comprise of the statement of financial position as at 30 June, 2019, statement of financial performance, statement of changes in net assets, statement of cash flows and the 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the National Quality Control Laboratory as at 30 June, 2019, 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 do not comply with the Public Finance Management Act, 2012 and Section 35D of the Pharmacy and Poisons Amendment Act, 1992.

Basis for Adverse Opinion

1. Unbalanced Trial Balance

The statement of financial performance reflects a total income of Kshs.92,073,007 and total expenditure of Kshs.102,698,761 resulting to a deficit of Kshs.10,625,754. On the other hand, the statement of financial position reflects total assets amounting to Kshs.113,303,048 against an equivalent total liability balance of Kshs.113,303,048. However, the trial balance reflects total debit balances totalling to Kshs.209,089,265 and total credit balances totaling to Kshs.186,988,499 resulting in an unexplained and an unreconciled variance of Kshs.22,100,766. Being prima facie evidence of accurate posting of transactions and fundamental records from where the financial statements are drawn, it has not been explained how the financial statements have been made to be in agreement if the Trial Balance was not balanced.

In the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June, 2019 could not be confirmed.

2. Inaccuracy of the Statement of Cash Flows

The statement of cash flows reflects increase in deposits-prepayments of Kshs.12,299,969. However, a comparison of the previous year's balances has not supported the movement of the deposits-prepayments balances in the statement of financial position.

In the circumstances, the accuracy, completeness and validity of the statement of cash flows for the year ended 30 June, 2019 could not be confirmed.

3. Property, Plant and Equipment

As disclosed in Note 20A to the financial statements, the statement of financial position reflects property, plant and equipment balance of Kshs.60,042,741. However, as previously reported, the balance excludes an undetermined value of a parcel of land measuring four (4) hectares situated in Upper Hill, Nairobi which was allotted to the Laboratory in 1992. The parcel of land was re-allocated to National Quality Control Laboratory in 1995 but was reduced from 4 hectares to 2.61 hectares. Available information indicated that out of 2.61 hectares, 1.26 was sold to Kenya-Re by Kenya Media Trust and the remaining 1.35 hectares was taken over by Kenyatta National Hospital. However, a total of 2.35 hectares has since been surrendered back leaving Kenya-Re with 1.0 hectares and Kenyatta National Hospital with 1.35 hectares.

Further, the National Land Commission has repossessed part of 1.35 hectares surrendered by Kenyatta National Hospital and reallocated it to Kenya Urban Roads Authority for the construction of a road without the consent of the National Quality Control Laboratory. Available information indicated that the 1.35 hectares parcel of land surrendered by Kenyatta National Hospital is under survey process while Kenya-Re has since surveyed the 1.0 hectare for purposes of subdivision for the property. 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 was provided that the processing of the same was on course.

In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs.60,042,741 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

4. Long Outstanding Balances - Receivables from Exchange Transactions

As disclosed in Note 17A to the financial statements, the statement of financial position reflects receivables from exchange transactions balance of Kshs.36,604,434. The balance includes analysis fees totalling Kshs.6,013,120 reflected as owed by Kenya Medical Supplies Authority (KEMSA), which has been outstanding for more than fourteen (14) years. However, this balance has not reflected as a payable in the Authority's financial statements.

Further, the receivables balance includes other receivables from United Nations Development Programme-Southern Sudan of Kshs.1,476,930 and Government of South Sudan of Kshs.136,267 which have been outstanding for more than five (5) years and

other debtors amounting to Kshs.7,587,918 which have been outstanding for more than one year. A provision for bad and doubtful debts of Kshs.1,098,133 equivalent to 3% of total outstanding debtors has been made in respect of the outstanding receivables.

Consequently, the accuracy and validity of the receivables from exchange transactions balance of Kshs.36,604,434 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

5. Inaccuracy of the financial statements

5.1 Non-Current Employees Benefits Obligations

As disclosed in Note 21B to the financial statements, the statement of financial position reflects non-current employees' benefits obligations balance of Kshs.2,311,999. However, the supporting schedule reflects Kshs.3,468,031 resulting to unreconciled variance of Kshs.1,156,032.

In the circumstances, the accuracy, completeness and validity of non-current employees' benefits obligations balance of Kshs.2,311,999 as at 30 June, 2019 could not be confirmed.

5.2 Unsupported Balances

Further, the financial statements reflected several balances that were not supported with verifiable audit evidence as outlined below:

No	Component	Total Balance Kshs.	Unsupported Balance Kshs.
1	Trade and other payables from exchange transaction	27,020,912	22,569,171
2	Other income- GMP inspection certification fees	916,234	916,234
3	Employee costs	22,932,132	120,000
4	General expenses	48,635,091	26,549,766
	Total	99,504,369	50,155,171

In the circumstances, the accuracy, completeness and validity of unsupported balance of Kshs.50,155,171 reflected in the financial statements for the year ended 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Quality Control Laboratory Management in accordance with ISSAI 130 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 Adverse 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. There were no key audit matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.210,815,900 and Kshs.92,073,007 respectively resulting to an under-funding of Kshs.118,742,893 or 56 % of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.320,542,882 and Kshs.102,538,516 respectively resulting to an under expenditure of Kshs.218,004,366 or 68% of the budget.

The under funding and under expenditure adversely affected the planned activities and may have impacted negatively on service delivery to the public.

2. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, the Management has not resolved all issues in contravention of the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Reference No. PSASB/1/12/(44) of 25 June, 2019.

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 described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section 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

Legal Status of National Quality Control Laboratory (NQCL)

The National Quality Control Laboratory was established under Section 35D of the Pharmacy and Poisons Act, Cap 244 of the Laws of Kenya on 28 October, 1992 and

came into operation on 6 November, 1992. Since inception, the Laboratory has operated under the Division of Pharmacy in the Ministry of Health. However, in September, 2014, it was recognized as a Semi-Autonomous Government Agency in the Ministry of Health. Subsequently, in February, 2016, the State Corporation Advisory Committee categorized the Laboratory at category PC 4B and advised the Ministry of Health to proceed to form an Inter-Ministerial Task Force to advise on attainment of full parastatal status. However, as at the time of audit, no progress had been made by the Ministry on formation of the Inter-Ministerial Task Force.

In the circumstances, the Management is in breach of the law.

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 OF 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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall 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 Board of Management

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 overall governance.

In preparing the financial statements, Management is responsible for assessing the Laboratory's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to liquidate the Laboratory or to cease operations.

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.

The Board of Management is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Laboratory 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 overall 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 review of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall 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 non-compliance. 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 applicable 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 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 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

19 August, 2021