

REPORT OF THE AUDITOR-GENERAL ON SCHOOL EQUIPMENT PRODUCTION UNIT FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of School Equipment Production Unit set out on pages 1 to 13, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 the School Equipment Production Unit as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion section 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. Receivables and Prepayments

As previously reported, the receivables and prepayments balance of Kshs.81,944,212 as at 30 June 2017, includes debts totalling to Kshs.29,671,868 out of which Kshs.26,969,377 have been outstanding for more than eight (8) years and whose recoverability is doubtful. Further, the figure of Kshs.29,671,868 also includes Kshs.835,984 in respect of staff advances due from deceased employees and those who have since left the Unit and whose recoverability is doubtful. In the circumstances, it has not been possible to confirm that the receivables and prepayments balance of Kshs.81,944,212 as at 30 June, 2017 is fairly stated.

2. Trade and Other Payables

As reported in 2015/2016 audit report, the trade and other payables balance of Kshs.25,789,409 as at 30 June 2017 includes liabilities totalling to Kshs.8,767,910 that have been outstanding for more than 8 years and whose supporting documents were not availed for audit review. In the circumstances, it has not been possible to confirm the accuracy and validity of the trade and other payables balance of Kshs.25,789,409 as at 30 June 2017.

3. Land

As previous reported, the property, plant and equipment balance of Kshs.95,549,641 as at 30 June 2017 includes land at a cost of Kshs.63,000,000. The piece of Land identified as plot No.LR.209/14009, measuring 5.1 hectares, is situated at Imara Daima Estate, Industrial area and is registered under the Unit's name. However, although the land was allocated to the Unit in 1996, the Unit has not been able to develop it due to subsequent invasion by squatters. Although the management is aware of the invasion by squatters no evidence of any action being taken to protect the piece of land was availed for audit review, the land had not been repossessed as at 30 June 2017. In the circumstances, it has not been possible to ascertain the ownership status of the piece of land and to confirm that the property, plant and equipment balance of Kshs.95,549,641 as at 30 June 2017 is fairly stated.

4. Supply of School Equipment

As reported in the previous years, the Unit entered into a contract in the year 2006 with a local Company for the supply of various pieces of laboratory equipment, chemicals and teaching aids to 1,457 secondary schools across the country, at a contract price of Kshs.226,772,450. According to records available, the Unit in 2008/2009 financial year received an amount of Kshs.261,326,532 from the parent Ministry of Education for the purpose. However, and despite availability of other suitable methods, the Unit used direct procurement to identify the supplier, besides making an advance payment of Kshs.75,086,880 to the supplier.

Additional information indicate that the officials of the Ethics and Anti-Corruption Commission intercepted the funds immediately after the advance payment was made and various officers of the Unit have since been arraigned in a Court of Law and charged over the contract. A review of the matter in December 2017 revealed that judgement was entered in favour of the plaintiff (Vulcan Lab Equipment Ltd.) on 7 December 2017 and against the 1st defendant (SEPU) for a sum of Kshs.150 million cost and interest and no stay of execution given to SEPU. Although the management has availed evidence that the Supplier made a refund of Kshs.70,000,000 to the National Treasury in 2013/2014 financial year leaving a balance of Kshs.5,086,880 and undetermined interest on the principle amount, the funds had not been remitted to the Unit as at the date of this report.

Further, and as previously indicated under the Statement of changes in equity for the year 2014/2015, out of the Kshs.261,326,532 received from the parent Ministry, for acquiring laboratory equipment, chemicals and teaching aids, Kshs.40,044,282 was paid to the Kenya Revenue Authority to cover tax arrears and penalties. It was therefore not possible to ascertain whether the amount of Kshs.261,326,532 was expended as appropriated.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of School Equipment Production Unit 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 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 matters described in the Basis for Qualified Opinion section of my report, I confirm that there were no Key Audit Matters to report in the year under review.

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 Financial Reporting 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 Unit's ability in continuing as a going concern, disclosing, as applicable, matters related to going concern and using going concern basis of accounting unless the management either intends to liquidate the Unit 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 Unit'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 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 Unit'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 Unit's ability to continue as a going concern or to sustain 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 Unit to cease to continue 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 Unit 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenya Companies Act, 2015, I report based on my audit, that:

- (i) 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;
- (ii) In my opinion, proper books of account have been kept by the Unit, so far as appears from my examination of those books; and,
- (iii) The Unit's statement of financial position and statement of comprehensive income are in agreement with the books of account



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

Nairobi

19 April 2018