

REPORT OF THE AUDITOR-GENERAL ON VETERINARY MEDICINES DIRECTORATE FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Veterinary Medicines Directorate set out on pages 1 to 53, which comprise the statement of financial position as at 30 June 2018, 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 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 Veterinary Medicines Directorate 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 Veterinary Surgeons and Veterinary Para-professionals Act (The Veterinary Medicines Directorate) Regulations, 2015 and Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unexplained Differences Between Financial Statements

A review of the financial statements for the year ended 30 June 2018 revealed unexplained differences between amounts of expenditure reflected in the statement of financial performance and the actual amounts shown in the statement of comparison of budget and actual amounts as indicated below;

| Particular Items | Amounts as per statement of financial performance Kshs. | Actual Amounts as per statement of comparison of budget and actual amounts Kshs. | Unexplained Difference Kshs. |
|-------------------------|--|---|---------------------------------|
| Expenses | | | - |
| Goods and services | 0 | 18,719,776 | (18,719,776) |
| Employee costs | 3,458,012 | 0 | 3,458,012 |
| Repairs and maintenance | 57,428 | 0 | 57,428 |
| General expenses | 3,563,576 | 0 | 3,563,576 |

Further, a review of the Directorate's financial statements for the year ended 30 June 2018 revealed that various budget line items were inconsistent with those indicated in the accompanying notes to the financial statements, statement of financial performance and other financial statements. Under the circumstances, comparison and analytical reviews

on item basis could not be carried out on the revenue and expenditure items reflected in the statement of financial performance vis-à-vis the revenue and expenditure items reflected in the statement of comparison of budget and actual amounts for the year ended 30 June 2018.

2. Unreconciled Revenue from Rendering of Services

The statement of financial performance reflects an amount of Kshs.19,072,103 in respect of revenue from rendering of services which includes nine revenue streams as disclosed in Note 10 to the financial statements. Examination of the supporting schedules and official receipts relating to the revenue streams from rendering of services, however, revealed a variance of Kshs.895,600 between the two sets of records as analyzed below:

| Revenue Stream | Particulars | Code | Amount as per Schedule Kshs | Amount as per Official Receipt Kshs | Variance Kshs |
|---|-------------------------|------|--------------------------------|--|------------------|
| Veterinary Medicines Dossier | Animix Limited | 1001 | 1,135,200 | 1,960,800 | (825,600) |
| Veterinary Medicines Wholesale Premises Licence Fees | Dawa Limited | 1036 | 30,000 | 40,000 | (10,000) |
| Veterinary Medicines Wholesale Premises Licence Fees | Medisel (Kenya) Limited | 1063 | 30,000 | 60,000 | (30,000) |
| Veterinary Medicines Wholesale Premises Inspection Fees | Adenchem Stores Limited | 1022 | 30,000 | 60,000 | (30,000) |
| | Total | | 1,225,200 | 2,120,800 | (895,600) |

No reconciliations or explanations were provided for the above differences.

Further, included in the revenue from rendering of services under Note 10 to the financial statements is an amount of Kshs.7,101,492 relating to Veterinary Medicines Import Verification Fees for which analysis and supporting schedules were not provided for audit review.

Consequently, the completeness and accuracy of the receipts of Kshs.19,072,103 reflected under rendering of services could not be confirmed.

3. Cash and Cash Equivalents

The statement of financial position as at 30 June 2018 reflects cash and cash equivalent balance of Kshs.37,152,327. However, the following unsatisfactory matters were noted with regard to the bank reconciliation statement as at 30 June 2018:

(i). Included in the bank reconciliation statement were items and amounts shown below which, however, were not supported by any documentation:

| Description | Amount (Kshs) |
|--|---------------|
| Payments in cash book not in bank statement (Un-presented cheques) | 16,941,013 |

| | |
|---|-------------------|
| Receipts in bank statement not recorded in cashbook | 936,134 |
| Sub –Total | 17,877,147 |
| Payments in bank statement not recorded in cashbook | 172,593 |
| Receipts in cash book not yet recorded in bank | 10,000 |
| Sub –Total | 182,593 |

In addition, the supporting schedules provided by management did not show the dates of the transactions or when the reconciling items were cleared and thus these items were deemed un-resolved and long overdue.

(ii). The bank certificates balance of Kshs.54,901,029 reflected in the bank reconciliation statement differed with the bank confirmation certificates of balances totalling Kshs.53,759,244 as at 30 June 2018 and thus, resulting in an unexplained variance of Kshs.1,141,785 as analyzed below:

| Bank | Account Number | Bank certificates balance as per the reconciliation statement Kshs. | Balance as per the bank confirmation certificates Kshs. | Unexplained Difference Kshs. |
|---|----------------|---|---|------------------------------|
| National Bank Of Kenya (Kshs A/C) | 01071203347300 | 49,374,235 | 48,739,559 | 634,676 |
| National Bank Of Kenya (USD A/C) | 02071203347300 | 54,158 | 49,188 | 4,970 |
| National Bank Of Kenya (USD A/C)- converted to Kshs @101.05 | 02071203347300 | 5,472,636 | 4,970,497 | 502,139 |
| Total – Kshs | | 54,901,029 | 53,759,244 | 1,141,785 |

The difference of Kshs.1,141,785 and conversion rate of Kshs.101.05 applied in converting the dollar account balance of \$54,158 to Kenya shillings balance of Kshs.5,472,636 were not explained or supported. Consequently, the accuracy of the bank reconciliation statement could not be ascertained.

Under the circumstances, the completeness and accuracy of the cash and cash equivalent balance of Kshs.37,152,327 as at 30 June 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Veterinary Medicines Directorate 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 matters described in the Basis for Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources sections, I have determined that there are no 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 matters described in the Basis for Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources 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

1. Budget Performance

An analysis of the approved expenditure budget vis-a-vis actual expenditure for the year ended 30 June 2018 revealed variances between the budgeted and actual amounts as shown below:

| Description of Expenditure | Approved Expenditure budget (Kshs) | Actual Expenditure (Kshs) | Under/(Over) Expenditure (Kshs) | Under/(Over) Expenditure in Percentage |
|---|------------------------------------|---------------------------|---------------------------------|--|
| Goods and Services - general expenses, repairs and maintenance & other expenses | 26,546,949 | 3,621,004 | 22,925,945 | 86% |
| Employee Costs | 2,880,000 | 3,458,012 | (578,012) | (12%) |
| Property, Plant & Equipment | | | | |
| Purchase of office furniture & general equipment | 4,200,000 | 0 | 4,200,000 | 100% |
| Purchase of Motor vehicles | 13,000,000 | 11,640,760 | 1,359,240 | 10% |

The under-expenditure on some items in the year under review is an indication that the Directorate did not execute some of its budgeted activities. The Directorate's failure to absorb the budget fully as approved would imply shortfall in the delivery of its mandate.

In addition, there was an over expenditure of Kshs.578,012 representing 20% of the budgeted amount on employee costs, personal allowances paid as part of salary and other allowances. No documentary evidence or explanations was provided to confirm approval of the over expenditure as required by the law.

Further, contrary to the guidelines issued by the Public Sector Accounting Standards Board, the Directorate failed to provide explanations in the notes to the financial

statements for material variances above / below +/- 10% between the budgeted and actual amounts for the year ended 30 June 2018.

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, except for the matters described in the Basis for Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources sections 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 Veterinary Medicines Directorate 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 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 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 Veterinary Medicines Directorate 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 Directorate 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 Veterinary Medicines Directorate 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

19 March 2019