

REPORT OF THE AUDITOR-GENERAL ON VETERINARY SERVICES DEVELOPMENT FUND FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Veterinary Services Development Fund set out on pages 1 to 32, 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 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 Veterinary Services Development Fund 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Employees' Costs

The employees' costs of Kshs.590,258 reflected in the statement of financial performance for the year ended 30 June 2018 were not supported by payrolls or schedules showing the names and particulars of the employees who were paid. As a result, the validity, completeness and accuracy of the expenditure could not be ascertained.

2. Property, Plant and Equipment

The property, plant and equipment balance of Kshs.34,457,123 as at 30 June 2018 reflected in the statement of financial position and disclosed in Note 33 to the financial statements was not supported by a fixed assets register with updated details such as the nature of asset, acquisition date, cost, depreciation rate and amount, disposals, serial/title number and location. Consequently, the completeness and accuracy of the property, plant and equipment balance of Kshs.34,457,123 could not be confirmed.

3. Inconsistencies in Presentation of Financial Statements

A review of the Fund'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.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Veterinary Services Development Fund 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 Conclusion 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 and controls

1.1. Budget under- Performance

Analytical review performed on the approved budget verses actual amounts for the year ended 30 June 2018 revealed material variances between the budgeted and actual amounts representing under-performance of the budget as shown below:

Item	Original budget	Actual on Comparable Basis	Performance Difference	Under- Performance in Percentage

Revenue	Kshs.	Kshs.	Kshs.	%
Hides and Skins Leather Quality Control	10,650,000	5,559,422	-5,090,578	48%
Diagnostic Services	2,100,000	728,588	-1,371,412	65%
Expenses				
Casual Labour	1,180,516	590,258	590,258	50%
Communication Supplies and Services	700,000	187,720	512,280	73%
Printing, Advertising and information supply	2,085,000	925,819	1,159,181	56%
Hospitality Supplies and Services	1,000,000	474,027	525,973	53%
Maintenance of computers, software, networks,	466,000	223,446	242,554	52%

No explanations were provided for the Fund's failure to meet the revenue targets or to incur the expenditure fully on some of the items as approved in the budget.

Further, contrary to the guidelines issued by the Public Sector Accounting Standards Board, the Fund 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.

1.2. Disproportionate Comparative Increase in Expenditure

A review of the statement of financial performance and statement of financial position revealed some revenue and expenditure items that recorded a disproportionate increase compared to the previous year as shown below:

Particulars	2017-2018	2016-2017	Variance	Variance
Revenue	Kshs	Kshs	Kshs	%

Revenue from exchange transactions - rendering of services	70,987,453	47,885,109	23,102,344	48%
Expenses				
Depreciation and amortization expense	7,176,485	6,162,484	1,014,001	16%
Repairs and maintenance	2,819,590	1,449,650	1,369,940	95%
Surplus/(deficit) for the period	11,467,819	- (10,086,359)	21,554,178	214%
PPE- Additions (Capital Expenditure)	8,396,400	5,280,915	3,115,485	59%

A further scrutiny of revenue and expenditure items on specific sub-components revealed the following disproportionate increase (decrease), over/ (under) 100% compared to the previous financial year as follows:

Description	2017-2018	2016-2017	Variance	
	Kshs	Kshs	Amount (Kshs)	%
Revenue - Rendering of Services				
Hides and skins	5,559,422	829,515	4,729,907	570%
Disease surveillance, Risk Management controls	13,210,045	1,249,350	11,960,695	957%
Veterinary Laboratories	217,575	0	217,575	100%
Other Veterinary Services	80,913	0	80,913	100%
Expenditure				
Repairs and maintenance				
Equipment	223,446	86,531	136,915	158%
Vehicles	1,972,759	964,749	1,008,010	104%
General Expenses				
Advertising	925,819	186,750	739,069	396%
Other operating expenses	0	2,960,422	-2,960,422	-100%
Telecommunication	187,720	0	187,720	100%

No proper explanation was given for the significant increases or decreases indicated above.

2. Non- Compliance with Procurement Laws

Section 54(1) of the Public Procurement & Asset Disposal Act ,2015, provides that, “no procuring entity may structure procurement as two or more procurements for the purpose of avoiding the use of a procurement procedure except where prescribed.” However, an examination of a sample of payment vouchers and supporting documents relating to procurement of goods and services for the year under review revealed incidences of splitting purchases orders contrary to this requirement as shown below:

a) Specialized Material and Services

Date	Ref:	Description	Amount - Kshs.
29-06-2018	33525	Cathan Logistics Supplies	900,000
29-06-2018	33526	Cathan Logistics Supplies	900,000
29-06-2018	33527	Cathan Logistics Supplies	992,815
29-06-2018	33528	Bestmart Enterprises	700,000
29-06-2018	33529	Bestmart Enterprises	700,000
29-06-2018	33530	Bestmart Enterprises	704,604
Total			4,897,419

b) Office and General Supplies

Date	Ref:	Description	Amount - Kshs.
28-02-2018	33407	M/S Superactive Reagents	1,640,000
28-02-2018	33408	M/S Superactive Reagents	1,236,250
Total			2,876,250

Under the circumstances, the Fund was 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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

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 Conclusion 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 deems it 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 Services Development Fund 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 liquidate the Fund 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.

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.

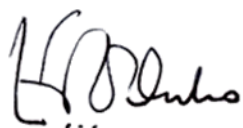
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 Services Development Fund 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 Fund 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 Services Development Fund 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

11 March 2019