

# REPORT OF THE AUDITOR-GENERAL ON KENYA MEAT COMMISSION FOR THE YEAR ENDED 30 JUNE, 2020

---

## REPORT ON THE FINANCIAL STATEMENTS

### Disclaimer of Opinion

I have audited the accompanying financial statements of Kenya Meat Commission set out on pages 1 to 29, which comprise the statement of financial position as at 30 June, 2020, and the statement comprehensive income, statement of changes in equity, 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

### Basis for Disclaimer of Opinion

#### 1. Presentation and Disclosure

The financial statements submitted for audit do not comply with the reporting framework prescribed by the Public Sector Accounting Standards Board (PSASB) as highlighted below:

- (i) The information on Board of Commissioners does not have each Commissioner's passport-size photo and name, key profession/academic qualifications, a concise description of each Commissioner's date of birth, key qualifications and work experience.
- (ii) It is indicated under management discussion and analysis that the Commission had pending bills amounting to Kshs.681 Million as at 30 June, 2020 relating to livestock farmers, statutory deductions and general suppliers. However, the statement of financial position reflects total current liabilities of Kshs.514,987,343 as at 30 June, 2020. The resulting difference of Kshs.166,012,657 was not explained.
- (iii) It is further indicated under management discussion and analysis that the Government had allocated Kshs.256 Million for settling pending bills to the Commission under Supplementary II, which was received in the year under review and paid out during the subsequent financial year. However, the receipts

are not reflected as grants in the statement of comprehensive income or as deferred income in the statement of financial position.

- (iv) The Notes to the financial statements are not aligned to the note numbers indicated on the face of the financial statements.

## **2. Sales**

The statement of comprehensive income reflects sales amounting to Kshs.126,690,161 for the year ended 30 June, 2020 (2019 - Kshs.188,610,051). Although the sales amount included both meat and other by-products like hides and skins, no documentary evidence was provided to support the sales amount. Further, no reasons were provided for the continued reduced sales for the fourth consecutive year.

## **3. Government Grant**

As disclosed in Note 6 to the financial statements, the statement of comprehensive income reflects an amount of Kshs.97,000,000 in respect of grants from National Government. Further, the Commission received grants totalling Kshs.190,000,000 from the State Department of Livestock which were not reported in the financial statements for the 2019/2020 financial year. Available information indicates that the grants of Kshs.97,000,000 was for drought mitigation while Kshs.190,000,000 was capital grant for factory modernization during the year under review.

Under the circumstances, the accuracy and completeness of grants from National Government for the year ended 30 June, 2020 could not be confirmed.

## **4. Other Income**

The statement of comprehensive income reflects other incomes totalling Kshs.47,703,329 which, as disclosed in Note 7 to the financial statements, includes an amount of Kshs.46,199,497 relating to rental incomes. However, examination of records for the leases revealed that thirty-six (36) tenants occupied the Commission's properties without paying rent for the entire year contrary to the provisions in the Lease Agreements. This resulted in un-paid rents totalling Kshs.3,743,691 for the year. Further, thirty-three (33) of the tenants had outstanding rent arrears totalling Kshs.7,927,466 from the previous year's resulting in a cumulative unpaid rent of Kshs.11,671,157. The Commission risks loss of income as a result of non-payment of rent and non-adherence to the lease agreement by the tenants.

Under the circumstances, the accuracy and completeness of rental incomes of Kshs.46,199,497 for the year ended 30 June, 2020 could not be confirmed.

## **5. Overstated Cost of Sales**

The statement of comprehensive income reflects cost of sales of Kshs.121,590,413 which, as disclosed in Note 8 to the financial statements, includes opening and net closing stock of Kshs.44,125,776 and Kshs.50,034,165, respectively. However, the recalculated cost of sales amount of Kshs.30,019,723 differs with the reported amount of Kshs.121,590,413, resulting in an unexplained variance of Kshs.91,570,690. Further, supporting documentation indicating how the cost of sales of Kshs.121,590,413 was arrived at, were not provided for audit review.

Under the circumstances, the accuracy and completeness of the cost of sales amount of Kshs.121,590,413 for the year ended 30 June, 2020 could not be confirmed.

## **6. Operating Costs**

The statement of comprehensive income reflects other operating costs totalling Kshs.185,057,033 which, as disclosed in Note 9 to the financial statements, includes staff costs, depreciation charge, Commissioners' emoluments and provision for doubtful debts of Kshs.123,332,410, Kshs.45,007,102, Kshs.9,131,715 and Kshs.2,040,938, respectively among other expenses. However, supporting schedules for the expenditure balances were not provided for audit review. However, the recalculated staff costs amounted to Kshs.127,429,133, resulting in an unexplained variance of Kshs.4,096,723. In addition, the payroll system is not integrated with the staff personnel data and no explanation was provided for the omission.

Consequently, the accuracy and completeness of the operating expenses of Kshs.185,057,033 could not be confirmed.

## **7. Selling and Distribution Costs**

The statement of comprehensive income reflects an amount of Kshs.5,337,103 under selling and distribution costs which, as disclosed in Note 11 to the financial statements, includes an amount of Kshs.5,034,850 that was not analyzed or supported.

Under the circumstances, the completeness and accuracy of the selling and distribution costs could not be confirmed.

## **8. Property, Plant and Equipment**

### **8.1 Lack of Fixed Assets Registers**

The statement of financial position reflects a balance of Kshs.1,995,958,952 under property, plant and equipment which includes amounts of Kshs.381,200,000, Kshs.970,335,536, Kshs.418,613,039, Kshs.2,810,377 and Kshs.223,000,000 in respect of freehold land, buildings and civil works, plant and machinery, office equipment, furniture and fittings and capital work in progress. However, as similarly reported in previous years, the balances could not be verified in the absence of a Fixed Assets Register and a detailed analyses of the property, plant and equipment balances. Further, these parcels of land costing Kshs.381,200,000 had not been revalued contrary to the

International Accounting Standard No.16 which requires sufficient regularity in revaluation of property, plant and equipment to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of reporting period.

## **8.2 Ownership Documents for Land**

As reported in the previous years, the Commission in 1984 secured a loan from the National Bank of Kenya through a debenture and charged 13 parcels of its land as security. The Government repaid all loans owed by various Government entities, including the Kenya Meat Commission in the year 2007, effectively lifting the charge on the Commission's parcels of land. However, the Commission had not obtained or received back the 13 original title deeds from the bank despite the loans having been settled.

Information available indicates that the bank had acknowledged holding 10 title deeds, not 13 that the Commission deposited. No explanation was provided on the whereabouts of the 3 titles deeds for properties in Kitisuru, Mavoko and Kajjado.

In addition, a search carried out at the Ministry of Lands and Physical Planning on 4 August 2016, on the above three titles traced the records for land in Kitengela only. The records (files) for the properties in Kitisuru and Mavoko could not be traced. It was, therefore, not possible to confirm ownership of the two parcels of land. Further, four (4) parcels of land belonging to the Commission have been encroached by informal settlers while a parcel of land in Nanyuki weighbridge is charged by the Kenya Revenue Authority for a Kshs.5 million tax debt. In addition, a parcel of land measuring 1.242 acres in Kwale county had its lease expired in August 1999 .

## **8.3 Irregular Sale of the Commission's Land**

As was similarly reported in the previous years, the Commission's parcels of land: L.R. No. MN/1/258- Shimanzi, Mombasa; L. R. No. 42/40 – Riverside Drive, Nairobi, and L. R. No.17/67 – Kitisuru, Nairobi, were sold on 2 April, 2008, 1 April, 2010 and 29 October, 1999 at a price of Kshs.12,000,000, annual rent of Kshs.400,000 and Kshs.18,250,000, respectively. However, no documentary evidence was provided to confirm that appropriate approvals by The National Treasury and the parent Ministry were granted as required by Section 13(1)(c) of the State Corporations Act. In addition, it has not been possible to confirm whether proper procedures were followed in the disposal and that the sales proceeds were received and receipted by the Commission.

## **8.4 Obsolete Plant, Machinery and Equipment**

As disclosed in Note 13 to the financial statements, the property, plant and equipment balance of Kshs.1,995,958,952 includes plant and machinery and office equipment, furniture and fittings with net book values of Kshs.418,613,039 and Kshs.2,810,377, respectively as at 30 June, 2020 which, as reported in the prior year, were obsolete and

not in a working condition. In addition, a large part of plant and machinery were idle due to underutilization and some had broken down without repairs having been initiated.

Further, the office equipment, furniture and fittings were nearly fully depreciated while all motor vehicles and motorcycles were fully depreciated yet they were still in use as of 30 June, 2020. The fully depreciated assets with economic value were not revalued to reflect their fair values in the financial statements.

## **8.5 Capital Work in Progress**

As disclosed in Note 13 to the financial statements, the property, plant and equipment balance of Kshs.1,995,958,952 reflected in the statement of financial position includes an amount of Kshs.223,000,000 indicated as capital work in progress. A review of available documents indicated that a contract for construction, repair, renovation of structures, including design, supply, installation, testing and commissioning of machinery and equipment in Athi River and Mombasa abattoirs was awarded to an international company at a price of US\$, 9,418,209.10 on 13 October, 2017. However, although the contract provided that foreign bidders were to be secured by a standby letter of credit, offered by a reputable Kenyan bank, the contractor provided a guarantee from an insurance company.

Further, relevant documents relating to the contract, including technical specifications, drawings, designs, implementation plan, warranty and confidential business questionnaire were not provided for audit review. The Commission did not also involve the Public Works Department or any expert of their own to supervise, monitor and ensure that the Bill of Quantities (BOQ) were adhered to by the contractor. Consequently, the validity of the contract and performance of the works according to the specifications could not be confirmed.

Although an amount of Kshs.223,000,000 is disclosed under work in progress in the financial statements, records available indicated that the contractor had been paid an amount of Kshs.104,694,655 as at June, 2018 but the completion of works certificates were not provided for audit review. Supporting documentation for the resulting difference of Kshs.118,305,344.60 was also not provided.

Further, a physical inspection and evaluation of the work done on 8 March, 2019 revealed that the installed machinery and equipment were not commensurate with the amounts disclosed in the financial statements under work in progress.

## **8.6 Undisclosed Intangible Assets**

The statement of financial position reflects a nil balance on intangible assets. However, the Commission has been using quick books which falls under intangible assets with an annual renewal of license cost of Kshs.1,037,460, that was paid for in the year under review. No explanation was provided for failure to disclose the intangible assets in the statement of financial position.

## **8.7 Undisclosed Disposal of Assets**

A review of the trial balance as at 30 June, 2020, revealed that the Commission received an amount of Kshs.920,000 as proceeds from sale of assets. However, the commission failed to adjust its records to reflect the disposal. Further, a sale of motor vehicle KAV 843E and seamer machine at a cost of Kshs.250,000 and Kshs.54,000, respectively were also not disclosed as disposals under property, plant and equipment .

## **8.8 Under-Utilization of Production Plant**

The Commission operates a production plant in Mombasa, Kibarani area. As at the time of the audit, no production activities were taking place. The production plant was confirmed to have been idle for a period of more than one year. The facility had been neglected with the plant, other machineries and equipment left to deteriorate.

Consequently, the Commission risks plant and machinery deterioration and damage from non-use.

## **8.9 Unreported Fire Incident at Shimanzi Depot**

A fire incident on the 11 May, 2019 at the KMC Shimanzi depot destroyed a cold storage unit with freezers, chillers, a cold room system and assorted machinery. Further, KMC engineers assessed the building and noted that it was structurally compromised and was likely to collapse. A site visit to the premise on 19 January, 2021 revealed that the following anomalies:

- (i) The facility structure was destroyed by fire.
- (ii) The incident was not formally reported to the police.
- (iii) The list of machinery and equipment destroyed by the fire was not produced for audit and therefore the corresponding loss could not be established.
- (iv) There was no evidence of a formal investigation on the cause of the fire and therefore the cause may never be formally established.
- (v) No insurance claims were raised for the loss.

From the foregoing, the ownership and accuracy of the property, plant and equipment balance of Kshs.1,995,958,952 could not be confirmed.

## **9. Inventories**

The statement of financial position reflects a balance of Kshs.50,034,165 under inventories as at 30 June, 2020. As disclosed in Note 14 to the financial statements, which is disclosed as Note 15 on the face of the financial statements, the balance includes meat and meat products - Kshs.3,347,659, engineering - Kshs.36,712,620, stationery and general stores - Kshs.9,973,886. However, the inventories of by-products like hides, skins and other related by-products were excluded for unexplained reasons.

Examination of stores records held by the Commission as at 30 June, 2020 showed that the total cost of stock held in the engineering and stationery and general stores were Kshs.22,867,300.16 and Kshs.27,356,030.55, respectively resulting in an unexplained variance of Kshs.189,165.71.

In addition, examination of stock sheets indicated that the Commission held a total of Kshs.797,492 in value, of expired stock in the general stores.

Consequently, the accuracy and completeness of the inventories balance of Kshs.50,034,165 could not be confirmed.

## **10. Trade and Other Receivables**

The statement of financial position reflects trade and other receivables net balance of Kshs.360,249,108 as at 30 June 2020 (2019 - Kshs.356,685,016). As disclosed in Note 13 to the financial statements, the balance includes trade and rental receivables of Kshs.308,177,574 and Kshs.53,503,267, respectively. However, various tenancy leases had expired while in some cases, there were no lease or tenancy agreements.

Further, included in the trade receivables of Kshs.308,177,574 is an amount of Kshs.33,043,504 described as unclaimed deposits which was not supported with any documentary evidence. The trade and other receivables balance of Kshs.Kshs.360,249,108 is net of provision for bad and doubtful debt amounting to Kshs.2,675,163 although the Commission does not have a policy on provision for bad debts.

Under the circumstances, the validity and recoverability of the trade and other receivables balance of Kshs.360,249,108 in full could not be confirmed.

## **11. Cash and Bank Balances**

As disclosed in Note 15 to the financial statements, the statement of financial position reflects a cash and bank balances of Kshs.161,202,211 as at 30 June, 2020. The following issues were noted:

### **11.1 Failure to Close Dormant Bank Accounts**

In a meeting held on 15 April, 2019, the Commissioners proposed that bank accounts be reorganized to include four (4) main accounts; government grant, rental income, Mombasa operations and Athi River operations. The other accounts were to be closed and funds transferred to rehabilitation account. No action had been taken to close the bank accounts as directed.

## **11.2 Long Outstanding Balances**

Included in the cash and bank balances of Kshs.161,202,811 is a net balancing amount of Kshs.1,812,476 arising from various bank reconciliation statements which had been outstanding for a period of more than one financial year. The Management did not provide an explanation for non-clearance of the long outstanding balance.

## **11.3 Cash and Cash Equivalents**

The statement of cash flows reflects cash and cash equivalents at the beginning of the year of Kshs.306,755,869 while the statement of financial position reflects a balance Kshs.176,233,179. Further, the statement of cash flows reflects cash and cash equivalents at the end of the year of Kshs.456,800,546 which differs with the balance of Kshs.161,202,211 reflected in the statement of financial position. These material differences were not explained or reconciled.

In view of the above, the accuracy and completeness of the cash and bank balances of Kshs.161,202,211 as at 30 June, 2020 as reflected in the statement of financial position could not be confirmed.

## **12. Trade and Other Payables**

The financial statements reflect trade and other payables balance of Kshs.417,463,364 as at 30 June, 2020 (2019 - Kshs.533,979,220), which is a decrease of Kshs.116,515,856 over the previous year's balance. The following issues were noted:

### **12.1 Non-Remittance of Outstanding Tax**

The trade and other payables balance includes an amount of Kshs.176,689,898 relating to other payables which in turn included an amount of Kshs.173,981,787 relating to outstanding tax remittances due to the Kenya Revenue Authority. No penalties and interest accruing from the outstanding tax remittances have been provided for in the financial statements.

### **12.2 Omitted Payables Balance**

The trade and other payables balance of Kshs.417,463,364 as at 30 June, 2020 does not include accrued trade payables totalling Kshs.1,545,012 relating to KMC Kibarani branch. The trade and other payables balance of Kshs.417,463,364 is therefore, understated.

Further, the trade and other payables balance of Kshs.417,463,364 differs with the amount of Kshs.583,562,818 reflected in the schedules provided for audit, resulting in a variance of Kshs.166,099,454. No reconciliation or explanation was provided for the variance.

Under the circumstances, the accuracy and completeness of the trade and other payables amount of Kshs.417,463,364 could not be confirmed.

### **13. Government Loans**

The statement of financial position reflects borrowings totalling Kshs.334,878,066 as at 30 June, 2020. As reported in the previous year, and as disclosed in Note 19 to the financial statements, the Government advanced the Commission loans amounting to Kshs.300 million comprising Kshs.200 million in 2009/2010 and Kshs.100 million in 2010/2011, at an interest rate of 2% per annum. The principal amount was to be repaid in twenty semi-annual consecutive instalments commencing 30 June, 2010. However, as at 30 June, 2020, the Commission had not settled either the principal instalments or the interest on the loans as provided for in the loan agreements. In addition, as at 30 June 2017, the accrued interest amounted to Kshs.41,528,835 and had been capitalized in breach of the terms of the loan agreements signed with the Government.

Further, the opening loan balance of Kshs.334,832,191 differs with the balance of Kshs.341,528,835 reflected in the financial statements for 2018/2019 by Kshs.6,696,644, which has not been reconciled. Further, no schedule of the loan was provided for audit scrutiny.

Consequently, the accuracy and completeness of the outstanding loan balance of Kshs.334,878,066 could not be confirmed.

### **14. Budgetary Control and Performance**

During the year under review, the Commission's actual revenue amounted to Kshs.461,393,490 against budgeted revenue of Kshs.1,355,473,536 resulting in a revenue shortfall of Kshs.894,080,046 or 66%. Further, actual expenditure for the year amounted to Kshs.321,104,549 against a budgeted expenditure of Kshs.1,061,806,875 resulting in an under absorption of Kshs.740,702,326 or 70%. There is need for the Commission to review its budget making process with a view to developing a vibrant budget implementation follow up mechanism and feedback process with a view to ensuring that all projects and activities are implemented as planned for the Commission to meet its mission and objectives for the benefits of the citizens of Kenya.

### **15. Audit Committee**

The Audit Committee is mandated to assist the Accounting Officer in fulfilling responsibilities in regard to risks, controls and governance and also follow up on the implementation of the recommendations of both internal and external auditors. Further, Regulation 179 (1) of the Public Finance Management (National Government) Regulations, 2015 states that an Audit Committee should meet at least once in every three months. However, during the year under review, the Audit Committee met only once.

### **16. IT System and Internal Controls**

The following weaknesses were noted as regards the Commission's IT system and internal controls in the year under review:

- (i) Unapproved ICT Strategic Plan and Policy Framework - the entity did not provide evidence of discussion and approval of its ICT policy and strategy by the Commissioners.

- (ii) Non-Establishment of ICT Strategic Function - the Commissioners had not established an IT Strategic Committee and a Steering Committee to govern IT interventions at a strategic level.
- (iii) The IT Department had two (2) employees only and was, therefore, understaffed. These employees did not undergo any ICT based training in the year 2019/2020.
- (iv) The IT Management System adopted for use by the entity for both financial activities related to its core business as well as administrative activities is best suited for small and medium sized entities and does not fit the needs, operational scale and nature of business undertaken by KMC.
- (v) KMC did not use the IT Management System to manage its inventory and manufacturing activities and lacked a suitable system to automate these critical operations.
- (vi) Non-integration of other KMC Branches into the ICT Network: KMC has multiple branches with its Head Office in Athi River, Machakos County and branches in Landhies Road - Nairobi; Kibarani Factory- Mombasa and Shimanzi Depot - Mombasa. However, activities within these branches were not integrated into the IT system used at the Head Office. It was therefore, not possible to monitor relevant operational branch activities from the Head Office on a real time basis.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Conclusion**

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7(1)(a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit 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 Financial Reporting 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 Commission's ability to continue as a going concern disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless Management is aware of the intention to terminate the Commission or to cease its 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.

Those charged with governance are responsible for overseeing the Commission's 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**

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is 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. I also consider internal control, risk management and governance

processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion on lawfulness and effectiveness in use of public resources, and on effectiveness of internal controls, risk management and governance.

I am independent of the Kenya Meat Commission 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.



**CPA Nancy Gathungu CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**31 August, 2021**