

REPORT OF THE AUDITOR-GENERAL ON EXPORT PROCESSING ZONES AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements which considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations which have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner, to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the Authority has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the Authority.

An unmodified opinion does not necessarily mean that the Authority has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Export Processing Zones Authority set out on pages 1 to 30, which comprise of the statement of financial position as at 30 June, 2021, and the statement of financial performance, statement of changes in net assets, the 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, 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 Export Processing Zones Authority as at 30 June, 2021, and of its financial performance and of cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and complies with the Export Processing Zones Act, 1990 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Long Outstanding Trade and Other Receivables

As previously reported, the statement of financial position reflects trade and other receivables balance of Kshs.655,218,924 out of which of Kshs.606,011,559 and Kshs.49,207,365 were for trade receivables and other receivables respectively, as disclosed in Note 14(a) and (b) to the financial statements. Included in the other receivables balance of Kshs.49,207,365 is salary advance balance of Kshs.9,258,849 which have been outstanding since 2011. The staff members to whom these salary advances were made have since left the Authority and the outstanding amounts are still reflected in the Authority's books. It is not clear why the salary advances were not recovered from the staff members before their exit from the service. Further, there was no request for the Board's approval to write off the same.

In the circumstances, the accuracy and completeness of the trade and other receivables balance of Kshs.655,218,924 could not be confirmed.

2. Lack of Ownership and Valuation of Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.12,169,143,885 as disclosed in Note 22 to the financial statements. However, the following issues were observed:

- i. As previously reported, the property, plant and equipment balance of Kshs.12,169,143,885 includes two parcels of land, measuring two hectares with a book value of Kshs.2,250,000, acquired through Gazette Notice No.2802 and 2803 of July, 1991. Further, and as previously reported the Authority acquired land measuring 0.08 Ha at purchase cost of Kshs.6,500,000 in 2015/2016 financial year. However, the Authority had not processed and obtained ownership documents for the parcel of land as at 30 June, 2021.
- ii. However, the Authority had not processed and obtained ownership documents for the parcels of land as at 30 June, 2021.
- iii. In addition, the Authority had not valued its assets for the last nine (9) years. This was contrary to Paragraph 49 of the International Public Sector Accounting Standard (IPSAS) No.17 on property, plant and equipment, which provides for revaluation of property plant and equipment every three to five years.

- iv. The Ministry of Water and Irrigation sunk two boreholes on the Authority's land in 2007. These boreholes were handed over to the Authority without formal documentation. However, the boreholes had not been valued and recognized as part of the Authority's assets.

In the circumstances, the accuracy, completeness, existence, ownership, valuation and presentation and disclosure of the property, plant and equipment of Kshs.12,169,143,885 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Export Processing Zones Authority 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 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. There were no key audit matters to report in the year under review.

Other Matter

1. Unresolved Prior Year Audit Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has indicated that the issues have remained unresolved as Parliament has not met to deliberate on the same.

2. Budget Implementation - Utilization of Development Grants

The statement of financial position reflects development grants of Kshs.147,872,292 as disclosed in Note 19 and 21(b)(i) to the financial statements. The approved budget for development grants for the year under review was Kshs.295,744,584. However, the total development grants received were accounted for as deferred income in the financial statements. Management has not explained why these grants, which were budgeted for development of a textile hub in Athi River and railway siding/link to Export Processing Zones, were not utilized for the intended purposes, in the year under review.

Other Information

The Management is responsible for the other information, which comprises Key Authority Information and Management, the Board of Directors, Management team, Chairman's statement, report of the Chief Executive Officer, statement of Performance against

Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability reporting, report of the Directors and statement of Board of Directors' responsibilities. The other information does not include the financial statements and my Auditor's report thereon.

My opinion on the Authority's financial statements does not cover the other information and I do not express any form of assurance or conclusion thereon.

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

Non-Compliance to the Prescribed Format

The financial statements presented did not comply with the format prescribed by the Public Sector Accounting Standards Board (PSASB). The revised reporting format requires an appendix on progress on follow-up of auditor recommendations to include all the audit issues raised previously by the Auditor-General. However, Appendix 1 to the financial statements on progress on follow-up of auditor recommendations reflects only six (6) issues on qualification part omitting six (6) issues in other parts of the report.

In view of the above, the Authority's financial statements are not prepared in accordance with the PSASB prescribed format.

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 which 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 controls, 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 the Board of Directors

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 controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Authority'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 terminate the Authority 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 Directors is responsible for overseeing the Authority's financial reporting process, reviewing the effectiveness of how Management 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 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 controls 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 controls 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 controls.

- 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 Authority'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 Authority to cease 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 Authority to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

01 September, 2022