

REPORT OF THE AUDITOR-GENERAL ON KENYA MEAT COMMISSION 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 that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that 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 entity 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 entity.

An unmodified opinion does not necessarily mean that an entity 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

Disclaimer of Opinion

I have audited the accompanying financial statements of Kenya Meat Commission set out on pages 1 to 30, which comprise the statement of financial position as at 30 June, 2021 and, the statement of profit or loss and other 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. Non- Compliance with the Public Sector Accounting Standards Board Templates

The financial statements and other accompanying information of the Kenya Meat Commission for the year ended 30 June, 2021 submitted for audit did not contain any content on statement of performance against predetermined objectives for the financial year 2020/2021 and on environmental and sustainability reporting both of which were blank with no information.

Further, the financial statements do not include progress on follow-up of auditor's recommendations on the prior year's audit issues while the notes to the financial statements are not aligned to the corresponding Note numbers indicated on the face of the financial statements.

In the circumstances, the presentation of the financial statements do not comply with the financial reporting framework and template prescribed by the Public Sector Accounting Standards Board (PSASB).

2. Inaccuracies in the Financial Statements

The financial statements submitted for audit had various errors and inconsistencies whereby the Trial Balance provided for audit indicates variances with the financial statements' balances.

Further, comparative figures in the financial statements were at variance with the audited balances for financial year 2019/2020 while the financial statements balances were at variance with the corresponding figures disclosed in the explanatory notes.

In addition, re-computation of the balances in the financial statements and the supporting notes to the financial statements revealed incorrect computations and there were variances between amounts reported in statement of comparison of budget and actual amounts and the approved budget.

In the circumstances, the accuracy, completeness and proper disclosure of the balances included in the financial statements for the year ended 30 June, 2021 could not be confirmed.

3. Grants from National Government

The statement of profit or loss and other comprehensive income reflects an amount of Kshs.391,358,057 in respect of grants from National Government for the year ended 30 June, 2021. However, the corresponding Note 6 to the financial statements and the

statement of cash flows under financing activities reflects grants from National Government of Kshs.1,101,358,057, resulting in a difference of Kshs.710,000,000.

Examination of the cash book and bank statements for the year ended 30 June, 2021 revealed that the Commission received amounts of Kshs.687,601,546 and Kshs.413,756,511 from Ministry of Defence and Ministry of Agriculture, Livestock and Fisheries, respectively all totalling to Kshs.1,101,358,057 which varies with the grants from National Government reflected in the statement of profit or loss and other comprehensive income of Kshs.391,358,057 by Kshs. 710,000,000.

In the circumstances, the accuracy and completeness of the grants from National Government of Kshs.391,358,057 as reflected in the statement of profit or loss and other comprehensive income for the year ended 30 June, 2021 could not be confirmed.

4. Unconfirmed Bank and Cash Balances

The statement of financial position reflects bank and cash balances of Kshs.295,813,433 and as disclosed in Note 15 to the financial statements. However, the bank balances disclosed under Note 15 to the financial statements differs with the cash book balances as indicated below:

Account Name	Amount as per financial statements Kshs.	Cash book balance Kshs.	Variance Kshs.
Working Capital Account	15,551,563	9,281,288	6,270,275
Rental Account	93,147,649	90,455,599	2,692,050
Mombasa Account	56,851,507	56,679,765	171,741

Further, two bank accounts, with balances of Kshs.11,000 and Kshs.500 were not supported with certificates of bank balance or bank statements as at 30 June, 2021.

In the circumstances, the accuracy and completeness of the bank and cash balances of Kshs.295,813,433 as at 30 June, 2021 could not be confirmed.

5. Property, Plant and Equipment

As disclosed in Note 13 to the financial statements, the statement of financial position reflects a net book value of Kshs.2,027,191,966 in respect of property, plant and equipment as at 30 June, 2021. However, the following anomalies were noted:

5.1. Capital Work in Progress

Disclosed in Note 13 to the financial statements is capital works in progress balance of Kshs.187,456,101 as at 30 June, 2021. However, no documentary evidence was provided for audit on how the brought forward balance as at 30 June, 2020 of Kshs.223,000,000 was dealt with in the financial year 2020/2021.

5.2. Fully Depreciated Assets

The net book value of Kshs.2,027,191,966 for property, plant and equipment includes motor vehicles and motor cycles with cost/valuation of Kshs.71,505,998 which were fully depreciated as at 30 June, 2021. However, Management has not explained why the Commission had not revalued or reviewed the depreciation methods of the assets in conformity with paragraph 31 and 61 of the International Standards of Accounting (IAS)16 to reflect the correct balances in the financial statements given that the assets were still in use and generating revenue.

In the circumstances, the accuracy, completeness and fair valuation of the property, plant and equipment items balance of Kshs.2,027,191,966 as at 30 June, 2021 could not be confirmed.

6. Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.267,685,796 as at 30 June, 2021. However, the corresponding Note 20 to the financial statements reflects a balance of Kshs.267,462,462, resulting in an unexplained difference of Kshs.223,334.

Further, the supporting Trial Balance indicates trade and other payables balance of Kshs.245,968,888 which differs with the balance of Kshs.267,685,796 resulting to an unexplained variance of Kshs.21,716,908.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.267,685,796 as at 30 June, 2021 could not be confirmed.

7. Unsupported Long Outstanding Borrowing

The statement of financial position reflects borrowings balance of Kshs.334,878,066 as at 30 June, 2021 which differs with the amount of Kshs.350,919,378 disclosed in Note 19 to the financial statements by an amount of Kshs.16,041,312. No explanation was provided for the difference.

Further, the borrowing balance of Kshs.334,878,066 includes capitalized interest amounting to Kshs.16,087,187 which is an increase from the previous years' balance of Kshs.9,120,000 by Kshs.6,967,187. No repayment schedule of the loan was provided for audit and Management did not provide an explanation for non-clearance of the long outstanding loan balance.

In the circumstances, the accuracy and completeness of the borrowing balance of Kshs.334,878,066 as at 30 June, 2022 could not be confirmed.

8. Trade and Other Receivables

The statement of financial position reflects trade and other receivables net balance of Kshs.396,383,311 which as disclosed in Note 13(a) to the financial statements includes an amount of Kshs.72,931,899 paid to a construction company by the Commission for

construction of an access road. The amount was to be refunded by the Ministry of Defence. However, the amount has not been disclosed as a receivable in the financial statements.

In the circumstances, the accuracy and completeness of the trade and other receivables balance of Kshs.396,383,311 as at 30 June, 2021 could not be confirmed.

9. Uncollected Rental Income

The statement of profit or loss and other comprehensive income reflects an amount of Kshs.52,639,185 in respect of other incomes which as disclosed in Note 7 to the financial statements, includes gross rental income of Kshs.51,876,736. Examination of rental income records revealed that rent owed by regular tenants totalling to Kshs.29,079,502 was outstanding for more than three months. No explanation was provided for failure to promptly collect the rent when it was due.

In the circumstances, the completeness and recoverability of the outstanding rent of Kshs.29,079,504 could not be confirmed.

10. Undisclosed Contingent Liability

The statement of financial position reflects total current liabilities of Kshs.380,311,712 as disclosed in Notes 20, 21, 22, and 7(a) to the financial statements. Examination of records from the legal department revealed that the Commission had seventy-four (74) active court cases with an estimated total liability of Kshs.79,952,148 as at 30 June, 2021. However, the Commission did not disclose the contingent liability in the financial statements and no explanation was provided for the non-disclosure.

In the circumstances, the completeness of the financial statements could not be confirmed.

11. Unremitted Pay As You Earn Tax

The statement of financial position reflects trade and other payables balance of Kshs.267,685,796 as disclosed in Note 20 to the financial statements which includes unremitted Pay As You Earn (PAYE) tax liability of Kshs.101,097,815. No explanations were provided for failure to remit the tax amounts deducted from employees' income as required under paragraph 10(1) of the Income Tax Procedures.

In the circumstances, Management was in breach of law.

12. Outstanding Imprests

The statement of financial position reflects trade and other receivables balance of Kshs.396,383,311 as disclosed in Note 13 to the financial statements which includes staff imprests and loans balance of Kshs.13,059,619. Review of the schedules and other records provided for audit revealed that, imprests amounting to Kshs.8,676,830 were issued to various officers but had not been surrendered as at 30 June, 2021.

Further, cases were noted where officers were issued with more than one imprest before surrender of the previous one. In addition, the Commission did not have a comprehensive and properly maintained imprest registers contrary to the provisions of Regulations 52(1) (j) and 92(4)(c) of the Public Finance Management (National Government) Regulations, 2015.

Management was in breach of the law and recoverability of the outstanding imprests of Kshs.8,676,830 as at 30 June, 2021 could not be confirmed.

13. Unresolved Prior Year Issues

In the audit reports of 2019/2020 and prior years, several issues were raised under Basis for Disclaimer of Opinion. The Commission did not attach to the financial statements a report on progress follow up on prior years' auditor's recommendations and how the matters have been dealt with including the recommendations and resolutions of the Public Investments on Committee.

The Commission was, therefore, in breach of the guidelines and template prescribed by the Public Sector Accounting Standards Board for Public Sector Entities reporting under International Financial Reporting Standards (IFRS) Framework and The National Treasury ref No.AG.4/16/2 Vol.3 (72) dated 30 June, 2021.

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 the Commissioners

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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 sustain its services disclosing, as applicable, matters related to sustainability of service and using the applicable basis of accounting unless Management is aware of the intention to terminate the Commission 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 Commissioners are responsible for overseeing the Commission's financial reporting process, reviewing the effectiveness of how the 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

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

11 August, 2022