

REPORT OF THE AUDITOR-GENERAL ON VETERINARY MEDICINE DIRECTORATE COUNCIL 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, gazetted 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

Qualified Opinion

I have audited the accompanying financial statements of the Veterinary Medicine Directorate Council set out on pages 1 to 32, which comprise the statement of financial position as at 30 June, 2021, and the statement of 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 the Veterinary Medicine Directorate Council as at 30 June, 2021, 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 and the Veterinary Surgeons and Veterinary Para-Professionals Act (The Veterinary Medicines Directorate) Regulations, 2015.

Basis for Qualified Opinion

1. Misstatement of Revenue from Exchange Transactions

As disclosed in Note 7 to the financial statements, the statement of financial performance reflects revenue from exchange transactions amounting to Kshs.94,850,398. However, review of postings to the ledger against the receipt's counterfoils revealed that receipts totalling to Kshs.626,137 were not captured in the ledger.

In the circumstances, the accuracy and completeness of the revenue from exchange transactions amount of Kshs.94,850,398 could not be confirmed.

2. Cash and Cash Equivalents - Uncleared Bank Reconciliation Items

As disclosed in Note 14 to the financial statements, the statement of financial position reflects a cash and cash equivalents balance of Kshs.287,361,409 and which relates to two bank accounts. Included in the cash and cash equivalents balance is an amount of Kshs.168,443,936 in a bank account held in a local commercial bank and denominated in Kenya shillings.

Review of the cash book, the bank reconciliation statement as at 30 June, 2021 and the bank statements for this account revealed that there were receipts in the cash book not recorded in the bank statement amounting to Kshs.1,954,800 with some dating back to the year 2019. In addition, the bank reconciliation statement reflects receipts in bank not recorded in cash book amounting to Kshs.1,849,620 out of which Kshs.550,094 dates back to the year 2020. Further, the statement reflects payments in bank not recorded in cash book amounting to Kshs.36,000 with some dating back to the year 2019.

Further, included in the cash and cash equivalents balance of Kshs.287,361,409 is a balance USD 1,102,619.12 (equivalent to Kshs.118,917,472) relating to a bank account held in a local commercial bank and denominated in US Dollars (USD). However, the bank reconciliation statement, for this account, for the month of June, 2021 includes, receipts in bank statement amounting to USD26,601 (equivalent to Kshs.2,977,522) not recorded in cash book out of which receipts totalling USD 17,725 (equivalent to Kshs.1,911,641) date back to the 2019/2020 financial year. In addition, the bank reconciliation statement reflects receipts in cash book not in bank statement amounting to USD.20,470 (equivalent to Kshs.2,207,689) out of which USD12,885 (equivalent to Kshs.1,389,647) dates back to the year 2019.

Management has however not explained the reason for not recording or adjusting these transactions in the respective cash books of the two accounts.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.287,361,409 could not be confirmed.

3. Receivables from Non-Exchange Transactions

As disclosed in Note 15 to the financial statements, the statement of financial position reflects receivables from non-exchange transactions balance of Kshs.2,183,000. The balance includes two imprests of Kshs.482,800 and Kshs.125,200, issued on 20 November, 2019 and 25 February, 2020, respectively to a former member of staff. Further, the bank reconciliation statement for the Kenya Shillings denominated bank account includes a receipt in bank statement not in cash book of Kshs.498,000 deposited on 16 June, 2020 by the same former member of staff, which had not been captured in the Council's books of account as at 30 June, 2021.

No reason was provided for issuing multiple imprests to the member of staff, for failure to recover the outstanding imprests and for failure to capture the amounts received from the staff member by the Council.

In addition, the receivables from non-exchange transactions balance of Kshs.2,183,000 includes a Government of Kenya Authority to Incur Expenditure (A.I.E) of Kshs.1,575,000. This A.I.E amount was also captured in the cash book of the Kenya Shillings denominated bank account as a receipt and in the bank reconciliation statement as a receipt in the cash book not in bank statement as at 30 June, 2021. This in effect means that the Council accounted for the transaction both as a receipt and as a receivable which is not the correct accounting treatment. Management did not provide a reason for this anomaly.

In the circumstances, the accuracy and completeness of the receivable from non-exchange transactions balance of Kshs.2,183,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Veterinary Medicine Directorate Council 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

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final expenditure budget and actual on comparable basis of Kshs.95,747,499 and Kshs.24,880,049, respectively resulting in an under-expenditure of Kshs.70,867,450 or 74% of the budget.

The under-expenditure might have impacted negatively on the goods and services delivery to the public.

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

Conflict in the Composition of the Council Membership

Regulation 8(1) of the Veterinary Surgeons and Veterinary Para-professionals Act (The Veterinary Medicines Directorate) Regulations, 2015 provides that the Director of Veterinary Services (DVS) shall be the Chairperson of the Council while the Principal Secretary responsible for animal health matters (State Department of Livestock) shall be a member. This compromises the overall governance of the Veterinary Medicines Directorate Council as the DVS is also a staff member under the direction/control of the Principal Secretary.

In the circumstances, the conflicting role of the Director of Veterinary Services (DVS) as the Chairperson of the Council may impact negatively on decision making by the Council.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements, 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 Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Lack of an Internal Audit Function

During the year under review, the Council did not have an internal audit function to review and appraise its existing internal controls, with a view to enhancing the Council's operational efficiency, governance and compliance. This is contrary to Regulation 160 of the Public Finance Management (National Government) Regulations, 2015 which gives

the mandate of internal auditors. As a result, the Council did not have an internal audit charter and an internal audit manual for the year under review.

Further, available records revealed that the audit committee held three sittings during the year under review but there was no evidence that there were any internal auditor's reports discussed by the committee. In addition, Management did not provide the reports of the audit committee.

In the circumstances, the effectiveness of the financial and non-financial performance management systems of the Council have not been reviewed and therefore any weaknesses in the internal control environment have not been identified.

2. Lack of a Strategic Plan and Key Policy and Procedure Manuals

During the year under review, the Council did not have in place a strategic plan, finance, accounting, ICT and human resources policy manuals to guide operations during the year under review.

In the absence of a strategic plan and key policy documents, the Council may not be able to prepare for the volatility in its business environment, manage change or successfully achieve its core mandate.

3. Lack of Enterprise Wide Risk Management (ERM)

During the year under review, the Council did not have a documented Enterprise-Wide Risk Management Policy in place to guide effectively the enterprises risk management processes at large in the Council.

In the circumstances, the effectiveness of risk management policy and risk management processes could not be confirmed.

4. Lack of Resource Planning, Management and Control System

The Council did not have an Enterprise Resource Planning (ERP) System, during the year under review, but instead maintained the ledger accounts on an excel software. In addition, the accounting, inventory control and human resource processes were mainly maintained manually, hence susceptible to errors and manipulations.

In the circumstances, the efficiency of the resource planning, management and control systems and processes of the Council could not be confirmed.

5. Understaffing of the Veterinary Medicines Directorate Council

Review of the Council's approved staff establishment revealed an optimal staffing of two hundred and sixteen (216) members. However, only ten (10) members were substantively employed resulting to a staffing gap of two hundred and six (206) members. This is contrary to the approved organizational structure, functions and staffing for the Veterinary Medicines Directorate Council document of January, 2020. In addition, out of the ten (10) employees, three (3) were seconded from the parent Ministry while seven (7) had been employed by the Council on a one-year contract.

Further, the Council had no inspectors and had not gazetted any inspectors to carry out one of its core functions of the inspectorate.

In the circumstances, the Council may not have effectively achieved its mandate.

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 processes and systems of internal control, 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 Directorate Council

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 Council'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 Council 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 Directorate Council is responsible for overseeing the Council's financial reporting process, reviewing the effectiveness of how the entity's 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 Council 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 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 Council'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 Council to cease to continue 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 Council 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 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

02 September, 2022