

REPUBLIC OF KENYA



*Paper laid by  
Hon Benjamin  
Wahidi, MP  
on 3/3/16  
Agda*

KENYA NATIONAL AUDIT OFFICE

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REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
SCHOOL EQUIPMENT PRODUCTION UNIT

FOR THE YEAR ENDED  
30 JUNE 2014

SCHOOL EQUIPMENT PRODUCTION UNIT

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2014

# SCHOOL EQUIPMENT PRODUCTION UNIT

~~A company~~ limited by guarantee and not having share capital

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SCHOOL EQUIPMENT PRODUCTION UNIT

**SCHOOL EQUIPMENT PRODUCTION UNIT  
ANNUAL REPORT AND FINANCIAL STATEMENT  
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2014**

## **Corporate Information**

**Board of Directors**      Chairman Board of Directors  
   Managing Director/ Secretary to the Board

**Registered Office**      **University of Nairobi,**  
   **Kenya Science Campus,**  
   Ngong Road,  
   P.O. Box 25140-00603,  
   Nairobi, Kenya.

**Principal Bankers**      **National Bank of Kenya Limited,**  
   Harambee Avenue Branch,  
   P.o Box 41862,  
   Nairobi, Kenya.

**Kenya Commercial Bank Limited.**  
Milimani Branch,  
P.O. Box 69695,  
Nairobi, Kenya.

**Co-operative Bank of Kenya Limited,**  
Haille Selassie Avenue,  
P.O. Box 48231-00100,  
Nairobi, Kenya.

**Auditors**                      **The Auditor General,**  
   P.O. Box 30084-00100,  
   Nairobi.

**SCHOOL EQUIPMENT PRODUCTION UNIT**

# SCHOOL EQUIPMENT PRODUCTION UNIT ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

## THE BOARD OF MANAGEMENT

DIRECTOR'S NAME	KEY QUALIFICATIONS AND EXPERIENCE
<p>1. Dr. Lydia N. Nzomo,OGW</p> <p>The Chief Executive Director, Kenya Institute of Curriculum Development,</p> <p>Chairperson</p>	<p>Dr. Lydia N. Nzomo,OGW</p> <p>Aged 62 years. She holds PhD from Kenyatta University. M.A. in counseling Psychology at United States International University (U.S.I.U) Kenya Bachelor of Arts Degree with Diploma in Education. She has Education Administration and Management course at University of Leeds, Britain.</p> <p>Senior Management seminar at Kenya Institute of Administration (K.I.A.) She has also attended many courses in different Countries including Swaziland and in Paris, France.</p>
<p>2. Mrs. Peperpetua S. Wanaswa,OGW</p> <p>Managing Director</p>	<p>Mrs. Perpetua S. Wanaswa,OGW</p> <p>She is aged 53 year. She is a holder of MBA (Masters in Business Administration –Strategic Management from Daystar University. BBA (Bachelor of Business Administration-Finance and Accounting option from Kenya Methodist University). CPA 1 from Institute of Certified public Accountants. Offered services during elections in the year 2002 and 2007 as a Clerk and deputy Presiding Officer respectively.</p> <p>Has attended various seminars and workshops in various Institutions. Employed by SEPU as a Junior Clerk in Accounts Department and rose up the ranks of Head of Finance Department. In January 2010 was appointed the Managing Director to date.</p> <p>Awarded the Order of the Grand Worrier of Kenya, (OGW) by His Excellency the President in 2013.</p>
<p>3. Mr. Robert Masese</p> <p>Alternate to Dr. BelioKipsang, Secretary, State Dept. of Education, Ministry of Education, Science and Technology</p>	<p>Mr. Robert Masese</p> <p>He represents the Ministry of Education, Science and Technology, as stipulated by the School Equipment Production Unit (SEPU) Act. A member of Finance and human Resource Committee of the Board.</p>

# SCHOOL EQUIPMENT PRODUCTION UNIT ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

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<p>4. Mrs. Lucy Kariuki</p> <p>Alternate to Dr. KamauThugge, Principal Secretary, The National Treasury</p>	<p><b>Mrs. Lucy Kariuki</b></p> <p>she is aged 53 years. She is a holder of CPA (K) MBA, Mrs. Lucy Kariuki represents National Treasury In SEPU's Board as stipulated by the Act establishing School Equipment Production Unit (SEPU). A member of Finance and Audit Committee of the Board.</p>
<p>5. Mr. Charles I. Imbali, OGW</p> <p>The Chief Principal, Kenya Technical Teachers College,</p>	<p><b>Mr. Charles Imbenzi Imbali, OGW</b></p> <p>He is aged 61 years. He holds Masters Degree from University of New Brunswick, Canada Bachelor of Education (Vocational Option) from Canada. Architectural Drafting Certificate from Red Community College from Winnipeg Manitoba - Canada. Diploma in Mechanical and Electrical Engineering from Kenya Polytechnic.</p> <p>Has attended many other courses and workshops in many Countries including New York and South Africa.</p> <p>In 2008, he was awarded order of the Grand Worrier of Kenya by His Excellency the President.</p>
<p>6. Mrs. Nancy Karimi, MBS</p>	<p><b>Mrs. Nancy Wambui Karimi, MBS</b></p> <p>She is aged 52 years of age. She holds Bachelor in Administration (B.A) (Hons) from University of Nairobi. Post- Graduate Executive Diploma in Corporate Governance from KCA University.</p> <p>Female future leadership Programme, Federation of Kenya Employers and Norwegian Enterprise confederation workshops and seminars in various Countries including Cape Town and Kigali. She is a member of Finance and Audit Committee of the Board.</p>

# SCHOOL EQUIPMENT PRODUCTION UNIT ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

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<p>7. Mrs. TeresiaNyawira</p> <p>Alternate to Prof. Shaukat A. Abdulkazak Chief Executive Officer, National Commission for Science and Technology Innovation</p>	<p><b>Mrs. TeresiaNyawira</b></p> <p>She is aged 42 years. She holds Msc. BEd(Science). Worked as a Teacher –Secondary School and Technical Training Institution and currently a Science Secretary Coordinating Science, Technology and Innovation grant Programme. Member of Audit and human Resource committee of the Board.</p>
<p>8. Ms. ElvineApiyo</p> <p>Alternate to Prof. James o. Odek, EBS The Managing Director Kenya Industrial Property Institute Ministry of Industrialization</p>	<p><b>Ms. ElvineApiyo</b></p> <p>She is aged 33 years. She holds Masters in Intellectual property Law (MIP) Africa University, Zimbabwe. Bachelor of Laws (LLB), Moi University, Eldoret, Kenya. Diploma in Law (KSL). Member of Audit and Human Resource Committee of the Board.</p>
<p>9. Mr. Julius Biginga</p> <p>Representative</p> <p>Inspector General, State Corporations.</p>	<p><b>Mr. Julius Biginga</b></p> <p>He represents the Inspector General as per the State Corporations Act.</p>

# **SCHOOL EQUIPMENT PRODUCTION UNIT ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014**

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## **CHAIRPERSON'S STATEMENT**

It is with great pleasure and honor that I on behalf of the Board of Management announce another impressive year of record turnover and profitability of School Equipment Production Unit (SEPU) contained in the Annual reports and statements for the period ended 30<sup>th</sup> June, 2014.

## **OPERATING ENVIRONMENT**

During the year under the review the manufacturing and supply of science equipment and materials faced some challenges including the increase of prices of raw materials and the finished products which reduced the purchasing power of our clients who are mainly learning institutions which reduced the Unit's total Revenue Income.

## **STRATEGIC POSITIONING**

The Unit continues to implement strategic objectives in accordance with the reviewed strategic plan 2014-2018. So far we have achieved and surpassed most targets set within the plan. We also plan to continue and ensure high quality production and distribution of specialized science teaching and learning materials for educational institutions, establish mechanisms to increase market share by 10% annually and penetrate the regional market, enhance the institutional Human Resource Management capacity, enhance internal organizational process for improved operational efficiency and enhance financial sustainability with the modifying and innovating our products and comparing with those from other organizations and the private sectors to make them cheaper and affordable to the learning institutions, and to ensure that the Stake Holders value is maximized.

## **OVERVIEW OF FINANCIAL RESULTS**

The profit before taxation was Kshs. 8,186 million compared to Kshs. 15 Million in 2013 representing a decrease of 45%. Gross Revenue was Kshs. 35 Million compared to Kshs. 45 Million in 2013 representing a decrease of 21%. The year had opportunities where the Primary Science Kit and Secondary Science Kits were sold in the Counties but this had also challenges e.g transportation of the products to remote places of Kilifi and Malindi County although the supply will improve the performance of Science in learning Institutions especially in the Coast Province.



# **SCHOOL EQUIPMENT PRODUCTION UNIT ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014**

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## **FUTURE PROSPECTS**

The outlook for 2015 is favorable with the economic growth targeted at 5.8% and with major infrastructural projects such as the construction of the Standard gauge railway, additional electricity generation projects, and food security irrigation projects, improvement of security infrastructure, roads expansion and expansion of airports among others being rolled out. we envisage a conducive operating environment even through the uncertainty related to the Curriculum review and its implementation may lead to slow down sales. The Unit will continue with implementation of the revised Strategic Plan 2014-2018 and Performance Contracts based on sound leadership, prudent financial management, innovation, creativity and team spirit.

# SCHOOL EQUIPMENT PRODUCTION UNIT ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

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## REPORT OF THE CHIEF EXECUTIVE OFFICER

### INTRODUCTION

The year under review has maintained a strong drive for result across all Department of the Unit. The strategies that have been developed are being implemented and will yield positive results which will increase the revenue in the next few years to come.

We continue to enhance the staff competence, attraction and retention by investing in Human Capital Development and improvement of the terms and conditions for employees. This is evidenced by high staff morale and commitments towards excellence performance.

### PERFORMANCE REVIEW

The Unit registered a profit of Kshs. 8.186 Million compared to Kshs. 15 Million in 2013. In order to improve on the performance the Unit, various strategies will be implemented e.g advertising through the website and recruiting mainly sales men from different Counties who will work on commission and also advertising the products through different medias to create awareness of the Unit's products.

The Unit is in the process completion stage of upgrading the Secondary Science Kit. This products will be advertised in all the counties.

The Unit has managed to put up a tank for over 100 Litres of water to be able to serve the Unit and enhance good health for employees. The process of reviving the two machines donated many years ago begins in this year and is yet to be completed.

- Recruitments Heads of Department were conducted in this financial year under review.
- Establishment expenses reduced in the year under review due to well maintenance of buildings and running of vehicles by the Management.
- Board Expenses increased due to special meetings held in the financial year on the issue harmonization of staff salaries.
- Staff costs increased due to the due to increased terminal and pension expenses by the employer and medical expenses.
- Operating expenses reduced to minimization of the expenses.
- Other Income comprised of interest on short term investments of Kshs.8, 232 Million.
- The Unit was able to visit Makueni County to promote the use of Secondary Science Kits.

# **SCHOOL EQUIPMENT PRODUCTION UNIT ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014**

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- Although the Unit has been facing Financial challenges we are determined to improve on internally operations and generated revenue through effective strategies that have been set, through sound leadership so that the Unit remain economically viable and contribute to the Country's growth.

The Unit's financial position is anticipated to increase in the next financial year. Notably the Unit finances all its operations and capital investment from internally generated finances. These results further demonstrate the sound leadership, prudence and effectiveness strategies that the Unit utilizes to stay economically viable and contribute to the country's economic growth.

## **BUSINESS REVIEW**

The Unit continues to grow its products portfolio in different segments. The partnership with Strengthening of Mathematics and Science in Secondary Education (CEMASTEAS) will see the Unit improve in its production modification and marketing its science equipment and materials through workshops and seminars for teachers. This will be extended to other Countries.

SEPU being a Government Agency which manufacture and supplies science equipment has had major achievements in the era of devolution as it has marketed its products through the County Government.

The Unit has continued to implement the Government policy toward 30% orders to the Youth, Women and Persons with Disability Mainstreaming.

The Unit has had good business with NGO's e.g. Build Africa, Kimse Yok Mu Dermegi which sponsors learning institutions with science equipment and materials.

## **PERFORMANCE CONTRACT AND ISO CERTIFICATION**

SEPU entered into a negotiated performance contract for 2013/2014 (10<sup>th</sup> Cycle) with the Government of Kenya by setting targets in line with revised Strategic Plan 2010-2015, second medium term 2013-2018 and the approved budgets. The Unit maintained favorable performance by

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# SCHOOL EQUIPMENT PRODUCTION UNIT ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

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achieving most of the set targets for the year under review as evidenced by performance contract evaluation in August, 2014. This is due to the commitment of the Unit's Board of Management and staff to continually improve performance and productivity. As a team we are positive in moving SEPU to better performance in all areas in the years ahead for more successes.

The Unit embrace the best practice by committing to ISO 9001-2008 quality Management and improving process and systems. The Unit will be certified by 30<sup>th</sup> June, 2015.

### **Appreciation**

The Unit has continued to improve in all its operations every year as a result of the great support provided by the Government of Kenya, through our Parent Ministry, the Ministry of Education, Science and Technology. The Board of Management who have provided Strategic direction and leadership. The Management staff who have worked tirelessly to be where we are, and our Stakeholders and Business Partners including our Clients for the business growth. —

# SCHOOL EQUIPMENT PRODUCTION UNIT ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

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## STATEMENT OF CORPORATE GOVERNANCE

The Board of Management implements effective governance through processes and policies linked to the core value and ethics as espoused in the code of Ethics which was revised based on Leadership and integrity Act 2012. Corporate governance is a key element contributing to School Equipment Production Unit business success.

### The Board

The Board of Management is responsible for providing overall leadership through oversight, review and guidance in addition to setting the strategic and policy direction. It is the primary decision making organ for all policy matters of the Unit. The Board is endowed with the appropriate mix of skills, knowledge and experience to perform its duties effectively. The areas of expertise of the Directors are as follow:

Name	Area of expertise
Lydia N. Nzomo, OGW	- Administration and Education
Robert Masese	- Administration and Education
Julius Biginga	- Administration
Teresia Nyawira	- Administration and Education
Nancy Karimi, MBS	- Administration and Education
Charles Imbali, OGW	- Administration and Education
Lucy Kariuki	- Accounting and Administration
Elvine Apiyo	- Legal Matters
Perpetua S. Wanaswa, OGW	- Accounting and Administration

The Board continues to offer oversight and review matters related to their duties including the Unit's strategy, financial performance, corporate governance, ensuring the maintenance of sound internal control system and risk management framework, delegation and monitoring of the authority for expenditure and commitments.

### Board Composition.

The Board has seven (7) members: The Chairperson, Principal Secretary, Ministry of Education, Science and Technology and National Council and four (4) Directors representing various Government agencies as per the company Act Cap 486 of 1976 that established SEPU and a Managing Director.

# SCHOOL EQUIPMENT PRODUCTION UNIT ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

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## **The role of Chairman and Chief Executive Officer.**

The separate roles of the Chairman/ Chairperson and Chief Executive Officer clearly defined in the Board Charter except for the strategic direction and general policy guidance the Board has delegated the conduct of the day to day business to the Chief Executive Officer.

## **Board Evaluation and Performance**

The Board has conducted the Annual Evaluation to assess its effectiveness in discharging its mandated. The process entails a self- Evaluation for each Director, evaluation of the Chairperson to the Board on overall Board interactions and conduct of business meetings and evaluation of Chief Executive Officer.

# SCHOOL EQUIPMENT PRODUCTION UNIT ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

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## BOARD AUDIT COMMITTEE

### Members

TeresiaNyawira	-	Member
Nancy Karimi, MBS	-	Chairperson
Lucy Kariuki	-	Member
ElvineApiyo	-	Member
Perpetua S.Wanaswa, OGW	-	Managing Director

### Role and function

The Audit Committee is responsible for continually evaluating the effectiveness of the internal control system and receives reports from the finance function on a quarterly basis. It reviews aspects relevant to governance, internal control procedures, risk management and internal audit. It also reviews external Auditor's report and Management responses. The Internal Audit functions reports directly to the full Board through the Management Committee.

### Attendance

Number of meetings scheduled for 2013/2014 2

TeresiaNyawira - Member	2/2
Nancy Karimi - Chairperson	2/2
Lucy Kariuki - Member	2/2
ElvineApiyo - Member	2/2
Perpetua S.Wanaswa,OGW-Managing Director	2/2

## BOARD FINANCE & GENERAL PURPOSES COMMITTEE

### Member

Nancy Karimi,MBS	-	Member
CharlseImbali,OGW	-	Member
Robert Masese	-	Member
Lucy Kariuki	-	Chairperson
Perpetua S.Wanaswa,OGW	-	Managing Director

# SCHOOL EQUIPMENT PRODUCTION UNIT ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

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## Finance and General Purposes Committee

### Role and functions

The Finance and General Purpose Committee plays a vital role in assuring the integrity of the financial statements before they are reviewed and approved by the full Board. It reviews and recommends for approval the quarterly and annual accounts. It also undertakes the monitoring and evaluation of the implementation of strategies, policies, management performance criteria and business plans on a regular basis; ensuring the adequate resources is employed to realize the goals and objectives of the Unit. It is also charged with the role of considering the Unit's annual and supplementary budgets and recommending them to the Board for approval. The Committee assesses the adequacy and effectiveness of the internal controls and financial management procedures and overall compliance with financial regulations.

### Attendance

Number of meetings scheduled for 2013/2014

6

Nancy Karimi, MBS - Chairperson	6/6
Lydia Nzomo, OGW	4/6
Charles Imbali, OGW	5/6
Robert Masese	6/6
Lucy Kariuki	4/6
Perpetua S. Wanaswa, OGW - Managing Director	6/6

## BOARD HUMAN RESOURCE COMMITTEE

### Member

Robert Masese	- Chairman
Julius Biginga	- Representative of State Corporation
Teresia Nyawira	- Member
Charles Imbali, OGW	- Member
Elvine Apiyo	- Member
Perpetua S. Wanaswa, OGW	- Managing Director



# SCHOOL EQUIPMENT PRODUCTION UNIT ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

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## Role and functions

- Ensure effective human resource policies and strategies that support the Units Values, Vision, Mission and aspirations.
- Review, and where significant, report to the Board best practices, trends, new technologies and current emerging public policy issues in human resource matters including but not limited to Occupational Health and Safety.
- Ensure the review of the position description of the Managing Director and the Board Chair's performance against corporate and personal objectives.
- Carry out any other related initiatives as may be necessary or desirable to enhance Board performance, including but not limited to Board learning and development.
- Annually review the total compensation guidelines and philosophies covering salary, bonus, long term incentives and benefits for Management and the Unit's staff, and review the market comparator groups.
- Review at least annually, and recommend to the Board for approval, the Managing Director compensation, based on the evaluation of the Managing Directors performance in light of corporate and individual objectives. Periodically review and recommend to the Board of approval, the Board's Chair total compensation package.
- Assess the learning and development needs of SEPU's Directors and staff and recommend learning opportunities which can be used by them to meet their needs for development.
- Handle disciplinary cases.
- Review terms of services.
- Review and recommend changes in remuneration for Delegates and Directors.
- Carry out Recruitment and Selection.

## Attendance

Number of meetings scheduled for 2013/2014. 4

Robert Masese-Chairman	4/4
Julius Biginga - Member	1/4
Teresia Nyawira - Member	3/4
Charles Imbali,OGW - Member	4/4
Elvine Apiyo - Member	3/4
Perpetua S. Wanaswa,OGW- Managing Director	4/4

# SCHOOL EQUIPMENT PRODUCTION UNIT ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014

## CORPORATE SOCIAL RESPONSIBILITY STATEMENT

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### SOCIAL RESPONSIBILITY

The Unit emphasizes on promoting positive social and environmental change on the community where it operates to uplift the standard of living.

The Unit is committed to social, economic and environmental sustainability. There are initiatives that have been geared to promote the social responsibilities which include:-

- The Unit donates a primary Science Kit to at least one school during functions. This promotes the learning of science to young learners.
- The Unit donates three (3) Secondary Schools kits during the Secondary Schools Science Congress every year to improve learning of Science subjects in schools. The Science equipment donated are used in the science laboratories.
- The Unit recognizes that employees are the most important assets of the Unit and has come up with internal social responsibility where one is encouraged to develop some savings to improve their standard of living by initiating different welfare programs for employees and are encouraged to develop themselves by giving them permission to leave early and attend evening classes.
- The Unit has maintained a clean environment by establishing Committee to ensure that the environment around is clean secure, and sustainable as per the Environmental Management Coordination Act (EMCA).

The Unit has put measures to mitigate against environmental degradation by planting trees, grass and flowers in the compound and somebody has been contracted to ensure survival of the planted vegetation.

**SCHOOL EQUIPMENT PRODUCTION UNIT  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2014**

**Report of the Board of Directors**

The directors submit their report together with the audited financial statements for the year ended 30th June 2014 which disclose the state of affairs of the company.

**PRINCIPLE ACTIVITY**

The Principle activity of the company is Designing, Producing and selling science educational equipment.

**RESULTS**

The results of the company are shown on page 5

The Company's Article of Association prohibits payment of dividends.

**RESERVES**

The Directors propose to carry forward the balance of the accumulated loss amounting to (32,881,227)

**DIRECTORS**

The Directors who served during the year were:

1) Dr. Lydia Nzomo, OGW	Kenya Institute of Curriculum Development	-Chairperson
2) Mrs. Nancy Karimi, MBS	The Jomo Kenyatta Foundation	-Member
3) Mr. Charles Imbali, OGW	Kenya Technical Teachers College	-Member
4) Mr. Robert Masese	Ministry of Education, Science & Technology	-Member
5) Mrs. Teresia Nyawira	National Commission for Science, Technology and Innovation	-Member
6) Mrs. Elvine Apiyo	Kenya Industrial Property Institute	-Member
7) Mrs. Lucy Kariuki	National Treasury	-Member
8) Mrs. Perpetua S. Wanaswa, OGW	School Equipment Production unit	-Managing Director

**SCHOOL EQUIPMENT PRODUCTION UNIT  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2014**

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**Statement of Directors Responsibilities**


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The Companies Act requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the Operating results of the Company for that year. It also requires the Directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The Directors accept responsibility for the annual financial statements that have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International accounting standards and the requirements of the Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least twelve months from the date of this statement.

The financial statements were approved by the Board of directors on 29<sup>th</sup> day of Sept, 2014 and signed on its behalf by:

  
Chairman Board of Directors

  
Managing Director/ Secretary to the Board

Date: 29<sup>th</sup> Day of Sept 2014

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON SCHOOL EQUIPMENT PRODUCTION UNIT FOR THE YEAR ENDED 30 JUNE 2014

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of School Equipment Production Unit as set out on pages 1 to 14 which comprise the statement of financial position as at 30 June 2014, and the statement of comprehensive income, statement of changes in equity, and 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 14 of the Public Audit Act, 2003. 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.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such 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.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

#### Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 (2) of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness

of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

### **Basis for Qualified Opinion**

#### **1. Receivables and Prepayments**

The receivables and prepayments balance of Kshs.87,436,291 as at 30 June 2014, includes debts totalling Kshs.26,096,945 which have been outstanding for more than five (5) years and whose recoverability is doubtful. Further, the balance of Kshs.87,436,291 also includes Kshs.835,984 in respect of staff advances due from deceased employees and those who have since left the Unit and whose recoverability is doubtful. The provision for bad and doubtful debts of Kshs.16,820,452 made in the financial statements appears inadequate.

In the circumstances, it has not been possible to confirm that the receivables and prepayments balance of KShs.87,436,291 as at 30 June, 2014 is fairly stated.

#### **2. Trade and Other Payables**

The Trade and other payables balance of Kshs.275,385,122 as at 30 June 2014 includes liabilities totalling Kshs.7,331,201 that have been outstanding for more than 5 years and whose supporting documents were not available for audit review. In addition, the balance of Kshs.275,385,122 excludes an overpayment of Kshs.199,073 from eighteen (18) suppliers. In the circumstances, it has not been possible to confirm the accuracy and validity of the trade and other payables balance of Kshs.275,385,122 as at 30 June 2014.

#### **3. Audit Fees**

Note 7(b) to the financial statements, reflects unpaid audit fees totalling Kshs.1,098,000 for six (6) consecutive years with effect from 30 June, 2008. This is in contravention of section 19 of the Public Audit Act, 2003 which requires State Corporations to pay for the costs of examination and audit to the Auditor-General.

#### **4. Land**

As reported in the previous year, the property, plant and equipment balance of Kshs.85,445,536 as at 30 June 2014 includes land at a cost of Kshs.63,000,000. The piece of Land identified as plot No. LR.209/14009, measuring 5.1 hectares, is situated at Imara Daima Estate, Industrial area and is registered under the Unit's name. However, although the land was allocated to the Unit in 1996, the Unit has not been able to develop it due to subsequent invasion by squatters. In the circumstances, it has not been possible to ascertain the ownership status of the piece of land and to confirm that the property and land and equipment balance of Kshs.85,445,536 is fairly stated as at 30 June 2014.

#### **5. Supply of School Equipment**

As reported in the previous years, the Unit entered into a contract in the year 2006 with a local company for the supply of various pieces of laboratory equipments,

chemicals and teaching aids to 1,457 secondary schools across the country, at a contract price of Kshs.226,772,450. According to records available, the Unit in 2008/2009 financial year received an amount of Kshs.261,326,532 from the parent Ministry of Education for the purpose. However, and despite availability of other suitable methods, the Unit used direct procurement to identify the supplier, besides making an advance payment of Kshs.75,086,880 to the supplier.

Additional information indicates that the officials of the Ethics and Anti-Corruption Commission intercepted the funds immediately after the advance payment was made and various officers of the Unit have since been arraigned in a Court of Law and charged over the contract. Although the management has indicated that the Supplier made a refund of Kshs.70,000,000 to the National Treasury during the year under review, no documentary evidence was availed to support this position.

Further, and as indicated in note 7 c (ii) to the financial statements, out of the Kshs.261,326,532 received from the parent Ministry for acquiring laboratory equipments, chemicals and teaching aids, Kshs.40,044,282 was paid to the Kenya Revenue Authority to cover tax arrears and penalties. It was therefore not possible to ascertain whether the amount Kshs.261, 326,532 was expended as appropriated.

## **6. Inaccuracy of the Financial Statements**

The statement of financial position under current liabilities as at 30 June 2014 reflects a suspense account balance of Kshs.236,713 whose nature and supporting analysis has not been availed for audit review.

Further, the statement of financial position cash and cash equivalents balance of Kshs.176,567,258 is at variance with the statement of cash flow cash and cash equivalents at end balance of Kshs.176,330,545 by unexplained/unreconciled difference of Kshs.236,713 which appears to be the same figure reported under a suspense account.

In the circumstances, the accuracy of these financial statements for the year ended 30 June, 2014 could not be ascertained.

### **Qualified Opinion**


In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Unit as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap 284 of the Laws of Kenya.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

As required by the Kenya Companies Act, I report based on my audit, that:

- (i) 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;

- (ii) In my opinion, proper books of account have been kept by the Unit, so far as appears from my examination of those books; and,
- (iii) The Unit's statement of financial position and statement of comprehensive income are in agreement with the books of account



**Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**11 June 2015**



**SCHOOL EQUIPMENT PRODUCTION UNIT  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2014**

**Statement of Comprehensive Income**

	Notes	30th June 2014 Kshs	30th June 2013 Kshs
Turnover	[10]	9,620,190	16,985,950
Less Sales return	[10]	-	(66,464)
		<u>9,620,190</u>	<u>16,919,486</u>
Less cost of Sales	[5]	(2,684,524)	(5,706,602)
<b>Gross Profit</b>		<u>6,935,666</u>	<u>11,212,884</u>
Grants	[3]	20,400,000	18,000,000
Bad debts recovered	[11]	2,964,381	
Finance income (Investment income)	[9]	8,232,141	16,052,006
<b>Total Net Income</b>		<u>38,532,188</u>	<u>45,264,890</u>
<b>EXPENDITURE</b>			
Establishment Expenses	[12]	(948,837)	(1,074,929)
Board Expenses	[13]	(3,167,493)	(2,954,920)
Staff Costs	[14]	(12,328,789)	(11,878,160)
Operating Expenses	[15]	(6,218,229)	(7,381,425)
Other Operating Expenses	[16]	(2,039,558)	(3,142,205)
Selling expenses	[17]	(2,162,494)	(3,387,049)
Finance Costs	[18]	(83,626)	(106,967)
<b>Total Expenses</b>		<u>(26,949,026)</u>	<u>(29,925,655)</u>
<b>Profit for the year</b>		<u>11,583,162</u>	<u>15,339,235</u>
<b>Profit for the year</b>		<u>11,583,162</u>	<u>15,339,235</u>

*The significant accounting policies and the notes set out on pages 6 to 14 forms an integral part of these financial statements.*

**SCHOOL EQUIPMENT PRODUCTION UNIT**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2014**

**Statement of Financial Position**

ASSETS	NOTE	30th June 2014 Kshs	30th June 2013 Kshs
<b>Non current assets</b>			
Property, Plant & Equipment	[8]	85,445,536	86,341,694
		<u>85,445,536</u>	<u>86,341,694</u>
<b>Current assets</b>			
Inventories	[6]	20,226,237	17,165,619
Receivables & Prepayments	[11]	87,436,291	84,593,021
Cash and bank balance	[2. i]	39,044	9,039,262
Investment (Call Deposit)	[4]	176,849,070	173,017,374
		<u>284,550,642</u>	<u>283,815,276</u>
<b>TOTAL ASSETS</b>		<u><b>369,996,178</b></u>	<u><b>370,156,970</b></u>
<b>CAPITAL &amp; RESERVES</b>			
Capital Reserves	[19.i]	59,301,064	59,301,064
Retained Earnings /(losses)	[19.ii]	(32,881,227)	(44,464,389)
Revaluation Reserve	[19.iii]	67,633,650	67,633,650
		<u>94,053,487</u>	<u>82,470,325</u>
<b>TOTAL CAPITAL AND RESERVES</b>		<u><b>94,053,487</b></u>	<u><b>82,470,325</b></u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade & other Payables	[7]	275,385,122	287,686,645
Bank Overdraft	[2. ii]	320,856	0
Suspense Account		236,713	0
		<u>275,942,691</u>	<u>287,686,645</u>
<b>TOTAL CAPITAL RESERVES &amp; LIABILITIES</b>		<u><b>369,996,178</b></u>	<u><b>370,156,970</b></u>

The financial statements were approved by the Board of Directors on 29<sup>th</sup> day of Sept 2014

and were signed on its behalf by:



Chairman Board of Directors



Managing Director/ Secretary to the Board

*The significant accounting policies and the notes set out on pages 6 to 14 forms an integral part of these financial statements.*

SCHOOL EQUIPMENT PRODUCTION UNIT  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2014

Statement of Changes in Equity

	Retained earnings Kshs	Revaluation Reserves Kshs	Capital Reserves Kshs	Total Kshs
Balance as at 01.07.2012	(59,803,624)	67,633,650	50,301,064	58,131,090
Surplus/(Deficit) for the period	15,339,235	-	-	15,339,235
Development Grant	-	-	9,000,000	9,000,000
<b>Balance as at 30.06.2013</b>	<b>(44,464,389)</b>	<b>67,633,650</b>	<b>59,301,064</b>	<b>82,470,325</b>

	Retained earnings Kshs	Revaluation Reserves Kshs	Capital Reserves Kshs	Totals Kshs
Balance as at 01.07.2013	(44,464,389)	67,633,650	59,301,064	82,470,325
Surplus/(Deficit) for the period	11,583,162	-	-	11,583,162
Development Grant	-	-	-	-
<b>Balance as at 30.06.2014</b>	<b>(32,881,227)</b>	<b>67,633,650</b>	<b>59,301,064</b>	<b>94,053,487</b>

**Capital reserve represents:**

The accumulated grants and loans received from/ or through the Kenya Government net of accumulated trading losses prior to incorporation in 1976.

**Retained Earnings**

The Retained loss has reduced from Kshs (44,464,389) to Kshs (32,881,227) as a result of profit for the year of Kshs. 11,583,162

**SCHOOL EQUIPMENT PRODUCTION UNIT  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2014**

## Statement of Cash Flows

	Notes	30th June 2014 Kshs	30th June 2013 Kshs
Profit/loss before taxation		11,583,162	15,339,235
Add Depreciation for the year	[8]	1,056,758	1,036,205
<b>Cash flows from operating activities</b>		<b>12,639,920</b>	<b>16,375,440</b>
 Less: Finance Income		 (8,232,141)	 (16,052,006)
		<b>4,407,779</b>	<b>323,434</b>
<b>Changes in Working Capital</b>			
<b>Increase/(Decrease) in operating assets:</b>			
Increase/(Decrease) in Receivables & Prepayments	[11]	(2,843,270)	1,935,116
Increase/(Decrease) in Payables & Accruals	[7a]	(12,301,523)	9,345,496
Increase/(Decrease) in inventory	[6]	(3,060,618)	(2,877,956)
		<b>(18,205,411)</b>	<b>25,424,964</b>
Tax paid		-	-
<b>Net cash flows from operating activities</b>		<b>(13,797,632)</b>	<b>25,748,398</b>
<b>Cash flows from Investing activities</b>			
Purchase of Property plant & Equipment	[8]	(160,600)	(8,959,415)
Interest income from investment	[10]	8,232,141	(16,052,006)
<b>Net Cash Generated from Investing activities</b>		<b>8,071,541</b>	<b>(25,011,421)</b>
<b>Cash flows from Financing activities</b>			
Increase/(Decrease) in Capital Reserve		-	9,000,000
<b>Net Cash Generated from Financing activities</b>		<b>-</b>	<b>9,000,000</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(5,726,091)</b>	<b>24,818,681</b>
Cash and cash equivalents at 1st July 2013		182,056,636	157,237,955
<b>Cash and cash equivalents at 30th June 2014</b>	[20]	<b>176,330,545</b>	<b>182,056,636</b>

SCHOOL EQUIPMENT PRODUCTION UNIT  
 ANNUAL REPORT AND FINANCIAL STATEMENTS  
 FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2014

**Statement of Comparison of Budget  
 and Actual Amounts**

	Original Budget 2013 - 2014 Kshs	Adjustments 2013 - 2014 Kshs	Final Budget 2013 - 2014 Kshs	Actual on comparable basis 2013 - 2014 Kshs	Performance difference 2013 - 2014 Kshs
<b>Revenue</b>					
Turnover	30,000,000	-	30,000,000	9,620,190	20,379,810
Grant	20,000,000	-	20,000,000	20,400,000	(400,000)
Finance Income	19,003,000	-	19,003,000	8,232,141	10,770,859
<b>Total Income</b>	<b>69,003,000</b>		<b>69,003,000</b>	<b>38,252,331</b>	<b>30,750,669</b>
<b>Expenses</b>					
Establishment Expenses	2,000,000	-	2,000,000	948,837	1,051,163
Board Expenses	2,500,000	-	2,500,000	3,167,493	(667,493)
Staff Costs	16,207,000	-	16,207,000	11,825,121	4,381,879
Operating Expenses	10,250,000	-	10,250,000	6,721,897	3,528,103
Other Operating Expenses	27,500,000	-	27,500,000	2,039,558	25,460,442
Selling expenses	2,100,000	-	2,100,000	2,162,494	(62,494)
Finance Costs	150,000	-	150,000	83,626	66,374
<b>Total Expenditure</b>	<b>60,707,000</b>		<b>60,707,000</b>	<b>26,949,026</b>	<b>33,757,974</b>
<b>Surplus for the period</b>	<b>8,296,000</b>		<b>8,296,000</b>	<b>11,303,305</b>	<b>(3,007,305)</b>

# SCHOOL EQUIPMENT PRODUCTION UNIT ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2014

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Summary of Significant accounting Policies

The principle accounting policies adopted in the preparation of these financial statements are set out below: These policies have been consistently applied to all years presented, unless otherwise stated.

#### Statement of compliance

The financial statements have been prepared in accordance with and comply with international Financial Reporting Standards (IFRS) for Small and Medium Sized Entities.

#### Critical Judgements and Estimates

In the process of applying the IFRS for SME, the directors are required to use certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on the directors best knowledge of current events and actions and other factors including expectations of future events that are believed to be reasonable under the circumstances, although actual results may differ from those estimates

#### Basis of accounting

The financial statements have been prepared under the historical cost convention basis of accounting. The principal accounting policies adopted remain unchanged from previous year and are set out below:

#### Currency

The accounts are prepared in Kenya shillings (Kshs) which is the official currency of the republic of Kenya.

#### Accounting period

The Company prepares its accounts for 12 months period ending 30th June every year

#### Country of incorporation and registered office

The company is incorporated in Kenya under the Companies Act and domiciled in Kenya.

#### Depreciation

Fixed assets are stated at historical cost less accumulated depreciation.

Depreciation is calculated on reducing balance method to write off

the cost (carrying values) of each asset to their residual values over their estimated useful lives as follows:

#### Depreciation rates applicable

Buildings	2.5%
Motor Vehicles	25%
Computers & printers	30%
Machinery	15%
Furniture & Fittings	12.5%

#### Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand balances and deposits held at call with banks.

**SCHOOL EQUIPMENT PRODUCTION UNIT  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2014  
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

**Other Reserves**

The Capital reserves represents the accumulated grants and loans received from/or through the Kenya Government net of accumulated trading losses prior to incorporation in 1976 and after incorporation.

**Inventories**

Stock and work in progress are stated at the lower of cost and net realisable value. Cost comprises the cost of raw materials and attributable production overheads appropriate to the location and condition of the stock at the balance sheet date.

Stock consists of stock taking as at 30th June 2014.

**Comparatives**

Comparative figures have been recorded to conform to changes in presentation in the current period.

**Financial risk management objectives and policies**

The company's activities expose it to a variety of financial risks, which involves receivables, payables and cash and cash equivalents. The company's overall risk management programme focuses on the unpredictable conditions by the unit which seeks to minimise potential adverse effects on its financial performance.

**i.) Credit risk**

This is a risk of financial loss to the company whereby a customer of a financial instrument fails to meet its contractual obligations, and arises mainly from the company's receivables with the customers.

The amount that best represents the company's maximum exposure to credit risk as at 30th June 2014 and 30th June 2013 is as shown below:

	30th June 2014 Kshs.	30th June 2013 Kshs.
Receivables & Prepayments	87,436,291	84,593,021
Bank and cash balances	176,567,258	182,056,636
	264,003,549	266,649,657

**ii.) Liquidity risk**

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due.

The unit implements prudent liquidity risk management which involves maintaining sufficient cash to meet company's obligations.

The unit has been experiencing financial problems which has not enabled it to maintain adequate cash balances in the bank.

The amount of trade and other payables of the unit as 30th June 2014 and 30th June 2013 are as below:

	30th June 2014 Kshs.	30th June 2013 Kshs.
Trade & Other Payables	275,385,122	287,686,645

**SCHOOL EQUIPMENT PRODUCTION UNIT  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2014**

**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

	30th June 2014 Kshs	30th June 2013 Kshs
<hr/>		
[2. i] Cash & Bank balances		
Kenya Commercial Bank Limited	28,139	8,842,412
National Bank of Kenya Limited	-	126,354
Cash at Hand	10,905	70,496
	39,044	9,039,262
[2.ii] Bank overdraft		
National Bank of Kenya Limited	(320,856)	0
	(320,856)	-
<p>The bank overdraft of Kshs 320,856 represent a cash book overdraft due to uncleared effects.</p>		
<hr/>		
[3] Grants		
Government grants net of accumulated loss before incorporation (1976)	8,468,564	8,468,564
Government grants after incorporation	41,832,500	41,832,500
GOK Grant (2013/2014)	20,400,000	18,000,000
	70,701,064	68,301,064
<hr/>		
[4] Investment ( Call Deposit)		
Co-operative Bank of Kenya Limited	176,849,070	173,017,374
	176,849,070	173,017,374
<hr/>		



**SCHOOL EQUIPMENT PRODUCTION UNIT  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2014**

**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

[5] Cost of Sales	30th June 2014 Kshs	30th June 2013 Kshs
Opening stock	17,165,619	14,287,663
Add-purchases	5,745,142	8,584,558
Less- closing Stock	(20,226,237)	(17,165,619)
	2,684,524	5,706,602
<hr/>		
[6] Inventories		
Chemical Stocks	5,482,958	2,519,863
Equipment stock	13,435,650	10,939,270
Work shop stocks	1,307,629	1,531,728
	20,226,237	14,990,861
Work in progress		2,174,758
	20,226,237	17,165,619
<hr/>		
[7 a.] Trade & Other Payables		
Trade Payables	10,065,776	12,319,240
Accrued Audit Fees	348,000	
Other Payables (b)	264,971,346	275,367,405
	275,385,122	287,686,645
b.] Other payables constitutes:		
Start General contractors	-	8,940,915
Retirement benefits (pensions)	1,496,814	1,751,958
Auditor General corporations	1,098,000	1,098,000
SEPU SACCO Interest	1,050,000	2,250,000
Ministry of Education (Unsupplied Equipment) (c).	261,326,532	261,326,532
	264,971,346	275,367,405
c.] Grant from Ministry of Education ( Special Grant)		
i.) Aspecial grant of Kshs. 261,326,532.00 was given by the Ministry of Education for purpose of producing/ purchasing school equipment for schools in Kenya		
ii.) The special grant has been expanded as below:-	<b>Kshs</b>	<b>Kshs</b>
Down payment of equipment to Vulcan Lab Equip. Ltd	75,086,880	75,086,880
Payment to Kenya Revenue Authority-KRA	40,044,282	40,044,282
Co-operative Bank of Kenya - Fixed deposit	146,195,370	146,195,370
	261,326,532	261,326,532

**SCHOOL EQUIPMENT PRODUCTION UNIT  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2014**

**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

**[8] PROPERTY, PLANT & EQUIPMENT**

	Land Kshs.	Buildings Kshs.	Motor vehicles Kshs.	Computers & Accessories Kshs.	Machinery & Equipment Kshs.	Furniture & Fittings Kshs.	TOTAL Kshs.
<b>COST</b>							
Balance as at 01.07.2013	63,000,000	21,065,680	1,447,477	159,273	669,264	-	86,341,694
Additions	-	-	-	-	-	160,600	160,600
Disposal	-	-	-	-	-	-	-
Balance as at 30.06.2014	63,000,000	21,065,680	1,447,477	159,273	669,264	160,600	86,502,294
<b>DEPRECIATION</b>							
Balance as at 01.07.2012	63,000,000	13,138,900	3,321,155	-	9,811,162	-	89,271,267
Transfer of Computers	-	-	-	644,010	(644,010)	-	-
Additions	-	8,940,915	-	18,500	-	-	8,959,415
Disposal	-	-	-	-	-	-	-
Balance as at 30.06.2013	63,000,000	22,079,865	3,321,155	662,510	9,167,152	-	98,230,682
Balance as at 01.07.2013	-	1,014,185	1,873,678	503,237	8,497,888	-	11,888,988
Charge for the year	-	526,642	361,869	47,782	100,390	20,075	1,056,758
Balance as at 30.06.2014	-	1,540,827	2,235,547	551,019	8,598,278	20,075	12,945,746
Balance as at 01.07.2012	-	703,294	1,391,518	-	8,757,971	-	10,852,783
Transfer of Computers	-	-	-	418,062	(418,062)	-	-
Charge for the year	-	310,891	482,160	85,175	157,979	-	1,036,205
Balance as at 30.06.2013	-	1,014,185	1,873,678	503,237	8,497,888	-	11,888,988
<b>NET BOOK VALUE</b>							
Balance as at 30.06.2014	63,000,000	20,539,038	1,085,608	111,491	569,874	140,525	85,445,536
Balance as at 30.06.2013	63,000,000	21,065,680	1,447,477	159,273	669,264	-	86,341,694

**Note:**

- i) Buildings constructed on land leased to the company from University of Nairobi Kenya Science campus at a peppercorn rental.
- ii) Computers and Accessories have been separated from Machinery and are depreciated at the rate of 30% and 15% respectively

# SCHOOL EQUIPMENT PRODUCTION UNIT ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2014

## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

### Related Party Disclosures

The unit regards a related party as a person with ability to exert control individually or jointly, or to exercise significant influence over the unit or vice versa.

#### i.) Government of Kenya

The government of Kenya is a related party to the unit as it provides the unit with various grants including Recurrent grant and Development grant as below:

	30th June 2014	30th June 2013
	Kshs	Kshs
Recurrent grant	15,000,000	9,000,000
Development grant	5,400,000	9,000,000
	20,400,000	18,000,000

#### ii.) Directors Remuneration

Allowance and other expenses	3,167,493	2,954,920
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### Contingencies

The unit does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements. Contingent liabilities are assessed by the unit to ensure that the provision are made after the contingency is valued.

The following are the contingencies which exist within the unit:

**Litigations** - There exists litigations against the unit which are in progress and related to the following matters:

i.) Case No. 2 of 2010 on an Investigating officer from Ethics & Anti-Corruption Commission Vs Benson Anyona and Others.

The case was ruled on 28th August, 2013, but the officers appealed as advised by Teachers Service Commission (TSC), reference is made to the letter dated 23rd June 2014.

ii.) HCCC No. 110 of 2010

Vulcan Lab Equipment Vs School Equipment Production Unit and Kenya Anti-Corruption Commission case No. 77 of 2014.

**SCHOOL EQUIPMENT PRODUCTION UNIT  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2014**

**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

	<u>30th June 2014</u> Kshs	<u>30th June 2013</u> Kshs
<b>[9] Finance Income</b>		
Finance income comprise of investment of interest on investment		
Invested Amount	146,195,370	146,195,370
Interest earned	8,232,141	16,052,006
	<u>154,427,511</u>	<u>162,247,376</u>
<hr/>		
<b>[10] Turnover</b>		
Turnover for the year	9,620,190	16,985,950
Less sales Returns		(66,464)
Net Turnover	<u>9,620,190</u>	<u>16,919,486</u>
<hr/>		
<b>[11] Receivables &amp; Prepayments</b>		
Trade Receivables	28,287,228	28,452,539
Other Current Assets		
Staff Advances	882,634	838,434
	<u>29,169,862</u>	<u>29,290,973</u>
Less Provision for doubtful debts	(16,820,452)	(19,784,833)
	<u>12,349,410</u>	<u>9,506,140</u>
Add Downpayment to Vulcan Lab Equipment	75,086,881	75,086,881
Total Net Debtors	<u>87,436,291</u>	<u>84,593,021</u>

The reduction in the provision for doubtful debts is as a result of recovering bad Debts amounting to Kshs 2,964,381.00

**SCHOOL EQUIPMENT PRODUCTION UNIT  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2014**

**SCHEDULE OF EXPENDITURE**

	30th June 2014 Kshs	30th June 2013 Kshs
<b>[12] Establishment Expenses</b>		
Repairs & maintenance of Equipment & Building	376,880	302,100
Motor vehicle running expenses & repairs	571,957	772,829
	<u>948,837</u>	<u>1,074,929</u>
<b>[13] Board Expenses</b>		
Sitting Allowance	2,376,000	2,954,920
Honoraria	672,000	0
Snacks	119,493	0
	<u>3,167,493</u>	<u>2,954,920</u>
<b>[14] Staff Costs</b>		
Salaries & wages	10,881,807	10,784,218
Staff welfare	616,804	594,027
Staff uniform	165,550	171,073
Terminal Benefits	-	206,242
Leave travelling allowance	130,000	119,800
Pension Expenses- employer	503,668	-
Staff medical expense	30,960	2,800
	<u>12,328,789</u>	<u>11,878,160</u>
<b>[15] Operating Expenses</b>		
Telephone & faxes	185,915	156,291
Printing and stationery	175,433	363,592
Insurance premiums	1,774,625	485,562
Local Travelling & subsistence	31,200	1,775,280
Subscriptions and Donations	53,100	40,000
Office expenses	1,095,271	880,997
Training & recruitment	218,250	92,800
Entertainment Expenses	-	246,380
Electricity & water	290,942	471,572
Broken glass wares & Equipment	-	1,109,952
Debt collection	11,700	-
Secondary school science kit	1,620,645	983,168
IT Expenses	359,560	129,528
Security services	401,588	646,303
	<u>6,218,229</u>	<u>7,381,425</u>

**SCHOOL EQUIPMENT PRODUCTION UNIT**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2014**  
**SCHEDULE OF EXPENDITURE (CONT.)**

	30th June 2014 Kshs	30th June 2013 Kshs
<b>[16] Other Operating Expenses</b>		
Audit fees	348,000	600,000
Professional & Legal fees	634,800	1,506,000
Depreciation Expense	<u>1,056,758</u>	<u>1,036,205</u>
	<u>2,039,558</u>	<u>3,142,205</u>
<b>[17] Selling expenses</b>		
Advertising, sales promotion & marketing	1,523,038	2,522,050
Parking materials (stores)	2,615	2,618
Refund to customers	50,850	119,800
Transport-Despatch & postage	<u>585,991</u>	<u>742,581</u>
	<u>2,162,494</u>	<u>3,387,049</u>
<b>[18] Finance Costs</b>		
Bank charges	<u>83,626</u>	<u>106,967</u>
	<u>83,626</u>	<u>106,967</u>
<b>[19] Capital &amp; Reserves</b>	<b>Kshs.</b>	<b>Kshs.</b>
i.) Capital Reserves	59,301,064	59,301,064
The accumulated grants and loans received from/ or through the Kenya Government net of accumulated trading losses prior to incorporation in 1976.		
ii.) Retained Earnings /(losses)		
Opening balance	(44,464,389)	(59,803,624)
Surplus/ Deficit	<u>11,583,162</u>	<u>15,339,235</u>
	<u>(32,881,227)</u>	<u>(44,464,389)</u>
iii.) Revaluation Reserve		
Revaluation Reserve on land	63,000,000.00	63,000,000.00
Revaluation Reserve on Buildings	<u>4,633,650.00</u>	<u>4,633,650.00</u>
	<u>67,633,650.00</u>	<u>67,633,650.00</u>
<b>[20] Cash and Cash Equivalents</b>		
Cash and Cash Equivalents consists of cash on hand, cash at bank and Investments.		
Cash in hand and at bank ( 20 .a.)	(281,812)	9,039,262
Investment ( Call Deposit)	<u>176,849,070</u>	<u>173,017,374</u>
Cash and Cash Equivalents	<u>176,567,258</u>	<u>182,056,636</u>
<b>[20.a. Cash in hand and at bank</b>		
Kenya Commercial Bank Limited	28,139	8,842,412
National Bank of Kenya Limited	(320,856)	126,354
Cash at Hand	<u>10,905</u>	<u>70,496</u>
	<u>(281,812)</u>	<u>9,039,262</u>