

REPUBLIC OF KENYA



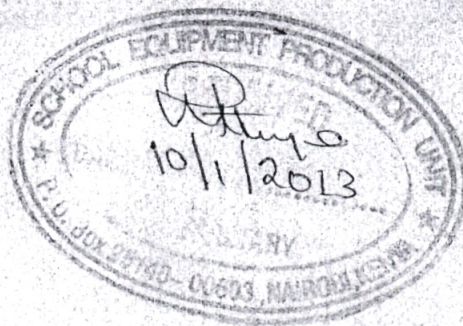
KENYA NATIONAL AUDIT OFFICE

**REPORT OF  
THE  
AUDITOR-GENERAL**

**ON**



**THE FINANCIAL STATEMENTS OF  
SCHOOL EQUIPMENT PRODUCTION  
UNIT FOR THE YEAR ENDED  
30 JUNE 2012**





ANNUAL REPORT

AND

FINANCIAL STATEMENTS

FOR THE

FINANCIAL YEAR ENDED

30 JUNE 2012

# School Equipment Production Unit

A company limited by guarantee and not having a share capital

**Financial Statement  
for the year ended 30 June 2012**

	<b>Page</b>
<b>Contents</b>	<b>1</b>
<b>Directors Report</b>	<b>2</b>
<b>Statement of Directors responsibilities</b>	<b>3</b>
<b>Auditors Report</b>	<b>4</b>
<b>Balance Sheet</b>	<b>5</b>
<b>Profit and Loss account</b>	<b>6</b>
<b>Cash Flow Statement</b>	<b>7</b>
<b>Statement of changes in Equity</b>	<b>8</b>
<b>Notes to the Accounts</b>	<b>9-13</b>
<b>Overhead Expenses Schedule</b>	<b>14</b>

# School Equipment Production Unit

## **A Company limited by guarantee and not having a share capital.**

The Unit is incorporated under the company's Act cap. 486.

### **Directors Report**

The directors submit their report together with audited accounts for the year ended 30 June 2012

### **Principal Activity:-**

The Principal activity of the Company continue to be designing, producing and selling science educational equipments.

### **Reserves:-**

The Directors propose to carry forward the balance of the accumulated loss amounting to (59,792,971) .

### **Dividends:-**

The company's Articles of Association prohibits payment of dividends.

### **Directors:-**

The Directors who served during the year were-

1. Mrs. Lydia Nzomo - Chairperson
2. Mrs. Nancy Karimi - Member
3. Mrs. Charles I. Imbali - Member
4. Mr. Robert Masese - Member
5. Mrs. Teresia Nyawira - Member
6. Mrs. Elvine Apiyo - Member
7. Mrs. Lucy Kariuki - Member

### **Registered Office**

Kenya Science Teachers' College  
Ngong Road,  
P.O Box 25140-00603  
Nairobi, Kenya.

### **Bankers**

National Bank of Kenya Limited,  
Harambee Avenue Branch,  
P.O Box 41862,  
**Nairobi, Kenya.**

Co-operative Bank Of Kenya Limited  
Haile Selassie Avenue,  
P.O.BOX 48231-00100  
Nairobi, Kenya.

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

### **Auditors:-**

The Auditor - General  
P.o.Box 30084-00100

**NAIROBI.**

## SCHOOL EQUIPMENT PRODUCTION UNIT

### Statement of directors' responsibilities

For the year ended 30 June 2012

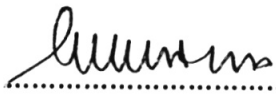
The companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss. It also requires the directors to:-

- Ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company.
- Safeguarding the assets of the company.
- Preparation of annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) 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 and of its profit or loss. 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 date of this statement.

Approved by the board of directors on 18-12-2012 (Date) and signed on its behalf by:

  
.....

CHAIRMAN BOD

DIRECTOR

DATE: 18-12-2012

  
.....

MANAGING

DIRECTOR / SECRETARY

DATE: 18-12-2012

REPUBLIC OF KENYA

Telephone: +254-20-342330  
Fax: +254-20-311482  
E-Mail: [cag@kenao.go.ke](mailto:cag@kenao.go.ke)  
Website: [www.kenao.go.ke](http://www.kenao.go.ke)

P.O. Box 30084-00100  
NAIROBI



## KENYA NATIONAL AUDIT OFFICE

### REPORT OF THE AUDITOR-GENERAL ON SCHOOL EQUIPMENT PRODUCTION UNIT FOR THE YEAR ENDED 30 JUNE 2012

#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of School Equipment Production Unit set out on pages 5 to 14, which comprise the statement of financial position as at 30 June, 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 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 judgment, 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 Unit'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. Trade and Other Receivables**

As reported in the previous year, the trade and other receivables balance of Kshs.86,528,137 includes trade receivables balance of Kshs.21,654,597 that has been outstanding for more than seven (7) years whose recoverability is doubtful. Although the management has engaged services of a debt collector it seems not much has been achieved for a period of over a year. Further, included in the trade and other receivables balance of Kshs.86,528,137 is Kshs.871,947 in respect of staff advances due from deceased employees and those who have since left the Unit and whose recoverability is doubtful.

Consequently, it has not been possible to confirm the full recoverability of the trade and other receivables balance of Kshs.86,528,137 as at 30 June 2012 and also whether the engaged debt collector is adding value to the Unit.

#### **2. 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 1457 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 a grant 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. This matter is still

# **School Equipment Production Unit**

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

## **Auditors Report**

pending in court and it is not clear when it will be concluded and disclosure of this fact by way of a note to the financial statements has not been done.

### **3. Audit Fees**

Included in other payables of Kshs.7,213,344 disclosed in note 9 to the financial statements, is unpaid audit fees totalling Kshs.1,550,000 for five consecutive years with effect from 30 June 2007. 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.

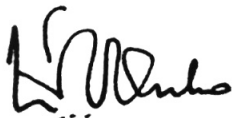
### **Qualified Opinion**

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, 2012, 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. 486 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 is in agreement with the books of account.



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

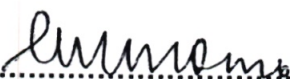
**Nairobi**

**2 January 2013**

# School Equipment Production Unit

## STATEMENT OF THE FINANCIAL POSITION AS AT 30 JUNE 2012

	Note	2012 Kshs.	2011 Kshs.
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, Plant and Equipment	2	78,417,485	76,152,148
<b>Current assets</b>			
Inventories	3	14,287,663	11,193,955
Investment	4	156,965,368	147,870,408
Trade receivables	5	86,528,137	86,577,976
Cash and cash equivalents	6	272,587	7,728,836
<b>Total assets</b>		<b>336,471,241</b>	<b>329,523,323</b>
<b>EQUITY AND LIABILITIES</b>			
Other reserves	7	50,301,064	50,301,064
Grant From Moe	8	261,326,532	261,326,532
Retained Loss		(59,804,622)	(65,394,987)
Revaluation Reserve		67,633,650	67,633,650
<b>Total Equity</b>		<b>319,456,624</b>	<b>313,866,259</b>
<b>Current liabilities</b>			
Trade and other payables	9	17,014,617	15,653,564
Bank Overdraft NBK		-	3,500
<b>Total Liabilities</b>		<b>17,014,617</b>	<b>15,657,064</b>
<b>Total Equity and Liabilities</b>		<b>336,471,241</b>	<b>329,523,323</b>

..... DIRECTOR

DATE: 18-12-2012.....

..... DIRECTOR / SECRETARY

DATE: 18-12-2012.....

# School Equipment Production Unit

## Statement of Comprehensive Income for the year ended 30 June 2012

		2012 Kshs	2011 Kshs
Turnover		17,995,874	21,554,592
Less sales return		(118,927)	-
		<u>17,876,948</u>	<u>21,554,592</u>
Less cost of sales	11	(9,348,040)	(20,111,317)
Gross Profit		8,528,908	1,443,275
Grants	12	10,000,000	10,000,000
Finance income	13	10,770,320	1,675,038
		<u>29,299,228</u>	<u>13,118,313</u>
<b>Expenditure</b>	<b>14</b>		
Establishment Expenses		983,945	1,016,207
Board expenses		2,241,165	1,282,547
Administration Expenses		7,221,857	23,067,341
Selling Expenses		2,200,965	1,104,662
Staff costs		10,928,534	-
Finance costs		132,397	-
Total expenses		<u>23,708,863</u>	<u>26,470,757</u>
<b>Profit for the year/ Net Loss</b>		<u>5,590,365</u>	<u>(13,352,443)</u>

# School Equipment Production Unit

## STATEMENT OF CASH FLOWS for the year ended 30 June 2012

	2012 Kshs	2011 Kshs
	<b>Notes</b>	
<b>Operating Activities</b>		
Profit/ Loss before Tax	5,590,365	(13,352,443)
Investment Income (Note 12)	(10,770,320)	(1,675,038)
Provision for doubtful debts	732,145	4,579,869
Depreciation	965,306	490,301
<b>Working Capital</b>	(3,482,504)	(9,957,311)
Increase/Decrease in Stock	(3,093,708)	(3,069,139)
Increase/Decrease in Debtors	49,839	1,630,224
Increase/Decrease in Creditors	1,361,053	842,377
	(5,165,321)	(10,553,849)
<b>Investing Activities</b>		
Property, Plant and Equipment	(3,192,468)	(7,849,166)
Grant from MOE	10,000,000	-
	6,807,532	(7,849,166)
Net Increase / Decrease in Cash	1,642,212	(18,403,015)
Balance at the beginning of the year	155,595,743	173,998,758
<b>Cash and Cash Equivalents</b>	<b>157,237,955</b>	<b>155,595,743</b>

# School Equipment Production Unit

8

## Statement of changes in Equity

for the year ended 30 June, 2012

	Retained earnings	General Reserve	Revaluation Reserve	Capital and other reserve	Totals
	Kshs	Kshs	Kshs	Kshs	Kshs
1st July 2010	-52,042,544	261,326,532	67,633,650	50,301,064	327,218,702
Net loss for the year	-13,352,443				-13,352,443
30th June 2011	-65,394,987	261,326,532	67,633,650	50,301,064	313,866,259
Bal b/f as at 1st July,2011	-65,394,987	261,326,532	67,633,650	50,301,064	313,866,259
Profit for the year	5,590,365	-	-	-	5,590,365
As at 30th June, 2012	-59,804,622	261,326,532	67,633,650	50,301,064	319,456,624

a). **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.

b). **General reserve represents:**

Grants received from the Kenya Government after the incorporation of the company.

# School Equipment Production Unit

9

## Notes to the Financial Statements for the year ended 30 June 2012

### 1 ACCOUNTING POLICIES

The financial statements are prepared in accordance with the international financial reporting standards (IFRS). The principal accounting policies adopted are set out below.

#### Basis of accounting

The Financial statements have been prepared under the Historic cost basis of accounting.

#### Depreciation

Fixed Assets are depreciated on a reducing balance basis to write the cost of the asset down to their residue value over their expected useful lives at the following rates:-

Land	Nil
Buildings	2.5%
Machinery	15%
Motor vehicle	25%
Computers	30%

**NB: The Land is under lease hold.**

#### Turnover

Turnover represents the invoices value of goods and services less returns.

### 2a PROPERTY, PLANT & EQUIPMENT

Cost	Land Kshs.	Building Kshs.	Machinery & others Kshs.	Motor vehicle Kshs.	Total
as at 1-7-2011	63,000,000	5,100,000	9,711,162	3,321,155	81,132,317
Additions		8,038,950	100,000		8,138,950
<b>as at 30th June 2012</b>	<b>63,000,000</b>	<b>13,138,950</b>	<b>9,811,162</b>	<b>3,321,155</b>	<b>89,271,267</b>
<b>Depreciation</b>					
as at 30th June 2011		556,203	8,582,968	748,305	9,887,476
charge for the year					
as at 30th June 2012		147,091	175,003	643,213	965,306
<b>30th June 2012</b>		<b>703,294</b>	<b>8,757,971</b>	<b>1,391,518</b>	<b>10,852,782</b>
<b>Net Book Value</b>					
as at 30th June 2012	63,000,000	12,435,656	1,053,191	1,928,638	<b>78,417,485</b>
as at 30th June 2011	63,000,000	9,490,279	1,089,019	2,572,850	<b>76,152,148</b>

- (i) Buildings constructed on land leased to the company from Kenya Science Teachers College at a peppercorn rental.  
(ii) The additional building has been depreciated for two months.

School Equipment Production Unit  
Notes to the Financial Statements  
for the year ended 30 June 2012 (CONT.)

2b PROPERTY, PLANT & EQUIPMENT

Cost	Land Kshs.	Building Kshs.	Machinery & others Kshs.	Motor vehicle Kshs.	Work in progress Kshs	Total Kshs
as at 1-7-2010	63,000,000	5,100,000	9,457,478	672,155		78,229,633
Additions			253,684	2,649,000	4,946,482	7,849,166
<b>as at 30th June 2012</b>	<b>63,000,000</b>	<b>5,100,000</b>	<b>9,711,162</b>	<b>3,321,155</b>		<b>86,078,799</b>
<b>Depreciation</b>						
as at 30th June 2011		439,695	8,330,959	626,521		9,397,175
charge for the year						
as at 30th June 2011		116,508	252,009	121,784		490,301
<b>30th June 2012</b>		<b>556,203</b>	<b>8,582,968</b>	<b>748,305</b>		<b>9,887,476</b>
<b>Net Book Value</b>						
as at 30th June 2012	63,000,000	12,435,656	1,053,191	1,928,638		78,417,485
as at 30th June 2011	63,000,000	9,490,279	1,089,019	2,572,850		76,152,148

## School Equipment Production Unit

11

### Notes to the Financial Statements for the year ended 30 June 2012 (CONT.)

#### 3 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 stock at the balance sheet date.

Stock consists of stock taking as at 30th June 2012

	2012	2011
Chemical Stocks	2,421,981	2,082,047
Equipment stock	10,579,355	5,047,860
Work in progress	-	2,449,462
Work shop stocks	1,286,327	1,614,586
	<u>14,287,663</u>	<u>11,193,955</u>

#### 4 INVESTMENT

	2012	2011
Co-operative Bank of Kenya	156,965,368	147,870,408

#### 5 TRADE RECEIVABLES

Trade Receivables	30,354,144	29,666,962
-------------------	------------	------------

#### OTHER CURRENT ASSETS

Staff Advances	871,945	876,821
	<u>31,226,089</u>	<u>30,543,783</u>
Less Provision for doubtful debts	<u>-19,784,833</u>	<u>-19,052,688</u>
	11,441,256	11,491,095
Down payment to Vulcan Lab Equipment	75,086,881	75,086,881
Total Debtors	<u>86,528,137</u>	<u>86,577,976</u>

# School Equipment Production Unit

## Notes to the Financial Statements for the year ended 30 June 2012 (CONT.)

### 6 CASH AND CASH EQUIVALENTS

	2012 Kshs	2011 Kshs
Cash in Hand	4,149	23,219
National Bank	189,369	
Kenya Commercial Bank	79,069	7,705,616
	<u>272,587</u>	<u>7,728,835</u>

### 7 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.

	2012 Kshs.	2011 Kshs.
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
	<u>50,301,064</u>	<u>50,301,064</u>

### 8 GRANT FROM MINISTRY OF EDUCATION (SPECIAL GRANT)

a) A special 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

	Kshs.	Kshs.
b) The special grant has been expended as below:-		
Downpayment 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
	<u>261,326,532</u>	<u>261,326,532</u>

# School Equipment Production Unit

## Notes to the Financial Statements for the year ended 30 June 2012 (CONT.)

	2012 Kshs.	2011 Kshs.
<b>9 TRADE AND OTHER PAYABLES</b>		
Trade Payables	9,801,273	9,019,564
Other Payables	7,213,344	6,634,000
	<u>17,014,617</u>	<u>15,653,564</u>
<b>(a) Other Payables constitutes:-</b>		
Retirement benefits (Pensions)	2,007,102	4,700,000
Auditor General Corporations	1,550,000	1,934,000
Terminal benefits	206,242	-
Salaries SEPU Sacco	3,450,000	
	<u>7,213,344</u>	<u>6,634,000</u>
<b>11 COST OF SALES</b>		
Opening stock	11,193,955	8,124,816
Add - purchases	12,441,748	23,180,456
less - closing stocks	<u>(14,287,663)</u>	<u>(11,193,955)</u>
	<u>9,348,040</u>	<u>20,111,317</u>
<b>12 GRANT</b>		
Ministry of education	<u>10,000,000</u>	<u>10,000,000</u>
<b>13 FINANCE INCOME</b>		
Principal amount	146,195,370	146,195,370
Interest earned	10,770,320	1,675,038
	<u>156,965,690</u>	<u>147,870,408</u>

# School Equipment Production Unit

14

## 13 Expenditure for the year ended 30 June 2012

	2012	2011
	Kshs	Kshs
<b>ESTABLISHMENT EXPENSES</b>		
Repairs and maintenance of Equipment & Building:	262,396	335,012
Motor Vehicle running expenses & repairs	721,549	681,195
	<u>983,945</u>	<u>1,016,207</u>
<b>BOARD EXPENSES</b>		
Director Allowances	2,241,165	1,282,547
<b>STAFF COSTS</b>		
Salaries and Wages	9,778,760	10,083,439
Pension	507,856	-
Staff welfare	391,355	466,588
Staff uniform	-	217,008
Terminal Benefits	177,805	623,003
Leave travelling allowance	65,200	53,800
Medical- for Staff	7,558	8,540
	<u>10,928,534</u>	<u>11,452,378</u>
<b>ADMINISTRATION EXPENSES</b>		
Telephone and Faxes	129,754	121,848
Printing and Stationery	256,276	236,505
Insurance premiums	384,797	382,888
Local Travelling & Subsistence allowance	882,460	858,950
Subscriptions and Donations	10,500	47,000
Audit Fees-KENAO	300,000	300,000
Office Expenses	1,206,426	902,906
Entertainment Expenses	160,742	-
Depreciation	965,306	490,301
Training\$recruitment	50,000	383,700
Water and Electricity	238,929	233,594
Provision for doubtful Debts	732,145	4,579,869
Secondary School science kit	966,099	-
IT	46,492	83,541
Security services	488,127	514,476
Professional & Legal Fee	366,400	1,314,000
Penalty KRA	37,404	-
	<u>7,221,857</u>	<u>10,449,578</u>
<b>SELLING EXPENSES</b>		
Advertising sales promotion	1,485,320	1,104,662
Debt Collection Expenses	93,264	160,792
Packing Materials (stores)	39,559	24,104
Refund to Customers	17,200	-
Transport - Despatch & Postage	565,622	860,089
	<u>2,200,965</u>	<u>2,149,647</u>
<b>FINANCE COSTS</b>		
Bank Charges	<u>132,397</u>	<u>120,400</u>