

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

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REPORT



OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
NATIONAL QUALITY CONTROL
LABORATORY

FOR THE YEAR ENDED
30 JUNE 2016

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NATIONAL QUALITY CONTROL LABORATORY



REGULATORY AND OTHER NON-COMMERCIAL ENTITIES
(NATIONAL QUALITY CONTROL LABORATORY)



ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

30 JUNE, 2016

Prepared in accordance with the Accrual Basis of Accounting Method under the
International Public Sector Accounting Standards (IPSAS-Accrual)

NATIONAL QUALITY CONTROL LABORATORY

Table of Content

	Page
Table of Content.....	2
I. KEY ENTITY INFORMATION AND MANAGEMENT.....	3
II. BOARD OF MANAGEMENT.....	5
III. SENIOR MANAGEMENT TEAM.....	6
IV. CHAIRPERSON'S STATEMENT.....	7
V. REPORT OF THE DIRECTOR.....	8
VI. CORPORATE GOVERNANCE STATEMENT.....	9
VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT.....	10
VIII. REPORT OF THE DIRECTORS.....	11
IX. STATEMENT OF THE BOARD OF MANAGEMENT'S RESPONSIBILITIES.....	12
X. REPORT AND OPINION OF THE AUDITOR GENERAL.....	15
XI. STATEMENT OF FINANCIAL PERFORMANCE.....	17
XII. STATEMENT OF FINANCIAL POSITION.....	18
XIII. STATEMENT OF CHANGES IN NET ASSETS.....	19
XIV. STATEMENT OF CASH FLOWS.....	20
XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS.....	21
XVI. SIGNIFICANT ACCOUNTING POLICIES.....	22
XVII. NOTES TO THE FINANCIAL STATEMENTS.....	32
XVIII. PROGRESS ON FOLLOW UP OF AUDITOR'S RECOMMENDATIONS.....	37

NATIONAL QUALITY CONTROL LABORATORY

I. KEY ENTITY INFORMATION AND MANAGEMENT

The National Quality Control Laboratory (NQCL) was established under section 35D of the Pharmacy and Poisons Act Cap 244 of the Laws of Kenya on the 28 October, 1992 and came into operation on 06 November, 1992. The Laboratory is headed by a Director who is responsible for the general policy formation, strategy direction and is the secretary to the Board of Management.

The principal activities under the Pharmacy and Poisons Board Amendment Act of 1992 (Cap 244, Laws of Kenya), the Laboratory is mandated to:

1. Examine and test medicines and any material or substance from which or with which and the manner in which medicines may be manufactured, processed or treated and ensure the quality control of medicines and medicinal substances,
2. Perform chemical, biological, biochemical, physiological and pharmacological analysis and other pharmaceutical evaluation
3. Test, at the request of the Board and on behalf of the Government, of locally manufactured and imported medicines or medicinal substances with a view to determine whether such medicines or medicinal substances comply with Cap 244,
4. To provide advisory services to the Ministry of Health (MOH) on medicines quality standard
5. Carry out Good Manufacturing Practices (GMP) inspections in pharmaceutical manufacturing industry premises and issue certificates of compliance on the same.

In September 2014, it was recognized as a Semi – Autonomous Government Agency (SAGA) in the MOH and on 11th February, 2016 the State Corporation Advisory Committee categorized it at category PC 4B and advised the MOH to embark on the activity of categorization.

Key and fiduciary management who held office and were running the Laboratory's day-to-day operations were involved in decision making during the period of financial statements under review to 30 June, 2016. They carry a direct fiduciary responsibility and included the following:

	Designation	Name
1.	Director and Secretary to the Board.	Dr. Hezekiah K. Chepkwony, PhD
2.	Senior Deputy Director	Dr. Pius M. Wanjala
3.	Deputy Director- Finance, Administration and Internal Audit.	Dr. George Wang'ang'a
4.	Deputy Director – Technical Services	Dr. Ernest G. Mbae
5.	Deputy Director – Quality Assurance Manager	Dr. Serah M. Muteru

The Statutory fiduciary oversight agencies include;

1. Kenya National Audit Office
2. Audit and finance committee of the Board
3. Parliamentary committee activities
4. Development partner oversight activities
5. Other oversight agencies

NATIONAL QUALITY CONTROL LABORATORY

Laboratory's Headquarters is;

National Quality Control Laboratory,
P.O. Box 29726-0202, KNH, Nairobi, Kenya
Kenyatta National Hospital Complex, Hospital Road,
2nd Floor, School of Pharmacy Building,
College of Health Sciences, University of Nairobi.

Laboratory's Contacts

Telephone: 020-3544525/30
E-mail: info@nqcl.go.ke
Website: www.nqcl.go.ke

Laboratory's Bank

National Bank of Kenya Ltd,
Hill Plaza, NHIF Building,
P.O. Box 45219-00100
Nairobi, KENYA.

Laboratory's Vote

The Laboratory controls a MOH **Vote Number 0009**, from where it receives annual allocations from The National Treasury (NT) through the Ministry of Health for recurrent and development expenditures.

Laboratory's Independent Auditors

The Auditor General,
Kenya National Audit Office,
Anniversary Towers, University Way,
P. O. Box 30084 – 00100, GPO,
Nairobi, KENYA.

Laboratory's Principal Legal Adviser

The Attorney General,
State Law Office,
Harambee Avenue,
P.O. Box 40112 – 00200, City Square,
Nairobi, KENYA.

NATIONAL QUALITY CONTROL LABORATORY

II. BOARD OF MANAGEMENT












	Board Member's passport-size photo	Name – Designation	Profession/ Academic Qualification	Main Responsibility
1.		Felista Kerubo Nyakoe* (Ms)	Food Chemist	
2.		Irene Thiguku Kamanja (Dr)	Veterinary Surgeon	Technical Committee Member
3.		Abdi O. Jama (Mr)	Pharmaceutical Technologist	Finance & Administration Committee Member
4.		Paul Munyao Mutua (Mr)	Advocate	Audit Committee Member
5.		Philip Omondi Odhiambo* (CPA)	Accountant	
6.		Apollo Odhiambo Maima (Dr)	Pharmacist	Finance & Administration Committee Member
7.		Joseph Shitandi Mukoko (Dr)	Pharmacist	Audit Committee Member
8.		Esther Gathoni Ithigi# (Dr)	Pharmacist	Technical Committee Member
9.		John Ronoh Sitienei (Mr)	Lecturer	Chairperson & Audit Committee Member
10.		Hezekiah K. Chepkwony (Dr)	Director; PhD; MPharm; MSc. Pharm; MPSK	Secretary to the Board

*Affected by the circular prohibiting civil servants from being BOMs in State Corporations.

relocated from Kenya soon after appointment to the board

NATIONAL QUALITY CONTROL LABORATORY

III. SENIOR MANAGEMENT TEAM FOR THE YEAR ENDED, 30 JUNE 2016

	Key manager's passport-size photo	Name – Designation	Professional/ Academic Qualification	Main Responsibility
1.		Dr. H.K. Chepkwony- Snr. Deputy Chief Pharmacist	PhD, MPharm, MSc. Pharm; MPSK	Director
2.		Dr. Pius Wanjala - Snr. Deputy Chief Pharmacist	MPharm, LLB; MPSK	Senior Deputy Director
3.		Dr. George Wang'ang'a Deputy Chief Pharmacist	MBA, BPharm; MPSK	Deputy Director – Finance and Administration and Internal Audit
4.		Dr. Serah Muteru - Assistant Chief Pharmacist	Msc, BPharm; MPSK	Deputy Director – Quality Assurance Manager (Q.A.M)
5.		Dr. Ernest Mbae - Deputy Chief Pharmacist	MPharm, BPharm; MPSK	Deputy Director – Technical Services
6.		Dr. Mathayo Kwena– Assistant Chief Pharmacist	Msc, BPharm; MPSK	Head Wet Chemistry and Instrumentation Units
7.		Dr. Emmuel Tanui - Assistant Chief Pharmacist	Msc; BPharm; MPSK	Head – Biological Analysis Unit
8.		Dr. Rebecca Manani Assistant Chief Pharmacist	Msc; BPharm; BPharm; MPSK	Head Documentation Unit
9.		Ms. Anastasia Ngumbi – Pharmaceutical Technologist	Dip. Pharm. Tech; Dip in Law	Head Medical Devices Unit
10.		Mr. David K. Yano – Accountant	BCOM, Finance; CPA	Head Finance Unit
11.		Ms. Irene Mukami – Supply Chain Management Officer	BCom Finance, Dip. SCM	Head Supply Chain Management Unit

NATIONAL QUALITY CONTROL LABORATORY

IV. CHAIRPERSON'S STATEMENT

The Board of Management (BOM) presents the NQCL Annual Report and Financial Statements for the year ended 30 June, 2016. The BOM was appointed by the Registrar, Pharmacy and Poisons Board (PPB) in accordance with Cap 244, Section 35 (F) (1) via a gazette notice number 111 of 9th January, 2015 effective from 31st December, 2014 and will serve for a period of three (3) years. The BOM was inaugurated in January, 2015 and has since then applied itself to steering the Laboratory realise its vision. The BOM's functions are enumerated in the same Act Section 35(G). The BOM has undergone Mwonogzo training, which is the code of governance for state corporations outlined by the Government of Kenya.

The Board has identified and continues to handle critical issues affecting the Laboratory's operations, performance and growth as outlined below but not limited to:

1. To deter other government institutions from usurping the Laboratory's mandate according to the Act and in particular the carrying out of Good Manufacturing Practices (GMP) inspections in pharmaceutical manufacturing industry premises and issue certificates of compliance on the same. It has done this by engaging stakeholders in the pharmaceutical sector, the Attorney General, PPB, MOH and the Kenya Trade Network.
2. Reviewed the analysis (sample testing) fees and other fees to reflect market rate cost of chemicals and reagents to enhance its revenue stream.
3. Continued to advocate for the Laboratory's complete categorization as a State Corporation and therefore have a wage bill from treasury. This will go a long way in strengthening the human resource capacity and reduce staff turnover by deterring their movement especially those who have been made technical signatories to ISO 17025 accreditation and World Health Organization (WHO) prequalification.
4. Reviewing and implementation of the NQCL scheme of service which will strengthen the human resource evaluation and appraisal systems.
5. Engaging the Ministry of Lands and the Surveyors of Kenya through MOH to acquire title deed for the piece of land approximately 2.61 hectares currently being held by Kenya Reinsurance Corporation (1.26 hectares) and Kenya National Hospital (1.35 hectares).
6. Mobilising resources to establish a centre of excellence testing facility on the repossessed land.
7. Ensure that the Laboratory's budgetary allocation from the NT is wholly sent to its account as grants to enhance financial independence, accountability and efficiency.



**Mr. John Sitienei Ronoh,
Chairman**

Date

10/4/2017



NATIONAL QUALITY CONTROL LABORATORY

V. REPORT OF THE DIRECTOR

The NQCL was established as a state corporation under section 35E (1) of the Pharmacy and Poisons Act Cap 244 Laws of Kenya which came into operation on 6th November 1992. The Laboratory performs the work of examining and testing medicines and any material or substance from which or with which and the manner in which medicines may be manufactured, processed or treated and ensure the quality control of medicines and medicinal substances; perform chemical, biological, biochemical, physiological and pharmacological analysis and other pharmaceutical evaluation; test at the request of the BOM and on behalf of the Government, of locally manufactured and imported medicines or medicinal substances with a view to determine whether such medicines or medicinal substances comply with Cap 244; provide advisory services to MOH on medicines quality standard; and carry out GMP inspections in pharmaceutical manufacturing industry premises and issue certificates of compliance on the same.

Since inception it has operated under the Division of Pharmacy in the Ministry of Health (MOH). **In September 2014, it was recognized as a Semi – Autonomous Government Agency (SAGA) in the MOH and on 11th February, 2016** the State Corporation Advisory Committee categorized it at category PC 4B and advised the MOH to embark on the activity of categorization. It continues to get its budgetary allocation through MOH under the **Vote Head 0009**.

The funds allocated are mainly used for procurement of chemicals, reagents, glassware, related apparatus and additional equipment that are vital in ensuring the institution continues to meet the current good practices for pharmaceutical quality control laboratories and the relevant parts of the World Health Organization (WHO) GMP guidelines and the ISO 17025 accreditation status under the South African National Accreditation System for pharmaceuticals.

The Laboratory generates income from sample analysis of drugs for Government institutions as well as private pharmaceutical firms. The income generated supplements the recurrent and development budget the Government gives to the Laboratory through MOH. The ability of the Laboratory to perform its core business of sampling and testing of drugs and medical devices will be enhanced by efforts to secure more autonomy and enhanced budgetary allocations.

Previous experience has shown that when budgetary allocations are channelled through the Vote Head 108 – 0009 at the MOH, a number of items requested for procurement as per the approved budget and procurement plan remain as pending bills as a result of lack of compliance with the allocated budget lines.

The Laboratory requires budgetary support to be channelled directly to its account to continue performing its core functions.

Dr. Hezekiah Kibet Chepkwony, PhD
Director,

Date

10th APR. 17



NATIONAL QUALITY CONTROL LABORATORY

VI. CORPORATE GOVERNANCE STATEMENT

Corporate governance is the structure and system of rules, practices and processes by which an organization is directed, controlled and held accountable. It encompasses authority, accountability, stewardship, leadership, direction and control exercised in organizations. Corporate governance essentially involves balancing the interests of the many stakeholders in an organization. These include its shareholders, management, customers, suppliers, financiers, government and the community. Corporate governance also provides the framework for achieving the objectives of the organization, and creates benchmarks for the measurement of corporate performance and disclosure.

The Laboratory has put in place a system of rules, practices and processes based on the Mwongozo Code of Governance developed by the Government of Kenya, by which it is directed and controlled, which involves balancing the interests of its many stakeholders including but not limited to management, staff, customers, suppliers, donors, government and the community in general. The system in place also provides the framework for attaining the Laboratory's objectives and encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosures.

The Mwongozo Code of Governance is anchored on the Constitution of Kenya, 2010. Article 10 of the Constitution entrenches national values and principles of governance while Article 73 places emphasis on public trust, honour and dignity of public offices. Personal integrity, and values and principles of public service are reinforced in Article 232, which also provides for efficiency, effectiveness and economic use of resources. The Code takes into consideration Chapter Six of the Constitution on Leadership and Integrity as well as the Public Officers and Ethics Act, 2003.

Taking cognisance that the Laboratory is in the process of being categorised as a state corporation, it has in the meantime been recognized as SAGAs that performs a regulatory duty in medicines control under MOH. As a testing and inspecting facility, the Laboratory continues to uphold its corporate values of Staff, Environment, Integrity & Patriotism, Technology, Standards, Commitment to customer services, Quality Service and Team & Individual Productivity.

The Laboratory's adoption of the Corporate Governance framework means it embodies the six principles of good governance developed by the worldwide Organization for Economic Cooperation and Development (OECD), and which are now global benchmarks for corporate governance principles. These are: ensuring the basis for an effective corporate governance framework; the rights of shareholders and key ownership functions; the equitable treatment of shareholders; the role of stakeholders; disclosure and transparency; and the responsibilities of the BOM. Further, the adopted code also takes into account the 2005 OECD Guidelines on Corporate Governance of State-Owned Enterprises, which were meant to cater for governance of state corporations. The governance guidelines include requirements that: State-owned enterprises should observe high standards of transparency in accordance with OECD principles of corporate governance; the boards of state-owned enterprises should have the necessary authority, competencies and objectivity to carry out their function of strategic guidance and monitoring of management; and members of the Board are required to act with integrity and be held accountable for their actions.

NATIONAL QUALITY CONTROL LABORATORY

VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Corporate Social Responsibility (CSR) is the responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behavior that:

- Contributes to sustainable development, including the health and the welfare of society,
- Takes into account the expectations of stakeholders,
- Is in compliance with applicable law and consistent with international norms of behavior, and,
- Is integrated throughout the organization and practiced in its relationships.

It can further be elaborated as a form of corporate self-regulation integrated into an organizations business model. It functions as a self-regulatory mechanism whereby the organization monitors and ensures its active compliance with the spirit of the law, ethical standards and national or international norms. For some organizations, it goes beyond compliance and engages in activities that appear to further some social good, beyond the interests of the firm and that which is required by law. The aim is to increase long-term benefits and stakeholder trust through positive public relations and high ethical standards to reduce business and legal risk by taking responsibility for corporate actions. Its strategies encourage the company to make a positive impact on the environment and stakeholders including consumers, employees, investors, communities, and others.

The NQCL has taken an initiative to assess and take responsibility for the effects on the environment and the kind of impact it has on the society. The Laboratory has made efforts that go beyond what may be required by the Government.

The Laboratory has done this by subscribing to the WHO prequalification guidelines for Good Practices for Pharmaceutical Quality Control Laboratories (GPQCL) and the ISO 17025 guidelines all of which clearly define how a quality control Laboratory is meant to dispose of its waste, use of chemicals and reagents and monitoring of environment conditions for sample integrity and staff working conditions.

The Laboratory also engages the society in its activities by allowing students to carry out their attachments in the institutions as a way of gaining experience and work practice. It also donates equipment to teaching institution and also performs demonstrations for students in universities and colleges that teach pharmaceutical sciences.

Going into the future the Laboratory intends to devote real time system on its activities to enhance environmental sustainability programs, alternative/clean energy, and various social welfare initiatives to benefit staff, customers, and the society at large.

NATIONAL QUALITY CONTROL LABORATORY

VIII. REPORT OF THE DIRECTORS

Pharmacy and Poisons Act Cap 244 requires the Board of the Laboratory to prepare financial statements, the operating results and cash flow for each financial year which gives a true and fair view of the state of affairs of the Laboratory as at the end of a financial year. It also requires the Board to ensure the Laboratory keeps proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Laboratory. The Board is also responsible for safeguarding the assets of the Laboratory.

The Board accepts responsibility for the annual Financial Statements, which have been prepared using appropriate accounting policies supported by reasonable, prudent judgments and estimates, in conformity with International Public Sector Accounting Standards and the requirements of the Act. The Board is of the opinion that the Financial Statements give a true and fair view of the state of the financial affairs of the Laboratory and of its operating results.

The Board further accepts responsibility for the maintenance of accounting records, which may be relied upon in the preparation of the Financial Statements, as well as adequate systems of internal financial control.



Dr. Hezekiah Kibet Chepkwony, PhD
Director,

Date

10th APR. / 17



Mr. John Sitienei Ronoh
Chairman

Date

10/4/2017



NATIONAL QUALITY CONTROL LABORATORY

IX. STATEMENT OF THE BOARD OF MANAGEMENT'S RESPONSIBILITIES

Section 192 of the Public Finance Management Act, 2012 of the State Corporations Act, require the Board to prepare financial statements in respect to the Laboratory, which give a true and fair view of the state of affairs and the operating results at the end of the financial year/period. The Board is also required to ensure that the Laboratory keeps proper accounting records which disclose with reasonable accuracy the financial position of the Laboratory. The Board is also responsible for safeguarding the assets of the Laboratory.

The Board is responsible for the preparation and presentation of the Laboratory's financial statements, which give a true and fair view of the state of affairs of the Laboratory for and as at the financial year ended on June 30, 2016.

This responsibility includes:

1. Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
2. Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;
3. Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
4. Safeguarding the assets of the Laboratory;
5. Selecting and applying appropriate accounting policies; and
6. Making accounting estimates that are reasonable in the circumstances.

The Board accepts responsibility for the Laboratory's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS - Accrual), and in the manner required by the Public Finance Management Act and the State Corporations Act.

The Board asserts that the financial statements give a true and fair view of the state of the Laboratory's transactions during the financial year ended June 30, 2016, and of its financial position as at that date. The Board further confirms the completeness of the accounting records maintained by the Laboratory, which have been relied upon in the preparation of the financial statements as well as the adequacy of the systems of internal financial control. Nothing has come to the attention of the Board to indicate that the Laboratory will not remain a going concern for at least the next twelve months from the date of this statement.

Senior Management's Responsibility for the Financial Statements

The Laboratory's Management takes responsibility for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards (IPSAS), and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

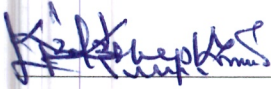
The financial statements of the Laboratory for the year ended 30 June, 2016, presented for audit comprise:

- a) Statement of financial performance,
- b) Statement of financial position,
- c) Statement of changes in net assets,
- d) Statement of cash flows,
- e) Statement of comparison of budget and actual amounts, and
- f) A summary of significant accounting policies and other explanatory information.

NATIONAL QUALITY CONTROL LABORATORY

Approval of the Financial Statements

The Laboratory's financial statements were/ are approved by the Chairperson of the Board on, 20 September, 2016 and signed on its behalf by:



Dr. Hezekiah Kibet Chepkwony, PhD
Director & Secretary to the Board

Date

10th APR. 17



Mr. John Sitienei Ronoh
Chairman

Date

10/4/2017



NATIONAL QUALITY CONTROL LABORATORY

REPUBLIC OF KENYA

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NATIONAL QUALITY CONTROL LABORATORY FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of National Quality Control Laboratory set out on pages 17 to 38, which comprise the statement of financial position as at 30 June 2016, and the statement of financial 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.

Management's Responsibility for the Financial Statements

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 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 47 of the Public Audit Act, 2015.

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 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). 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 Laboratory's internal control. An audit also includes

Report of the Auditor-General on the Financial Statements of National Quality Control Laboratory for the year ended 30 June 2016

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.

Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, I am not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

1.0 Property, Plant and Equipment

1.1 As previously reported, the property, plant and equipment balance of Kshs.58,013,176 as at 30 June, 2016 excludes an undetermined value of a parcel of land measuring four (4) hectares situated at Upper Hill area, Nairobi which was allotted to National Quality Control Laboratory in 1992. The parcel of land was re-allocated to National Quality Control Laboratory in 1995 but was reduced to 2.61 hectares. Available information indicates that out of the 2.61 hectares, 1.26 was sold to Kenya-Re by Kenya Media Trust and the remaining 1.35 hectares were taken over by Kenyatta National Hospital. However, a total of 2.35 hectares has since been surrendered back; Kenya-Re 1.0 hectares and Kenyatta National Hospital 1.35 hectares. Further, the National Land Commission has taken part of the 1.35 hectares surrendered by Kenya-Re and donated it to Kenya Urban Road Authority for construction of road without the consent of National Quality Control Laboratory. The fate of the remaining 1.65 hectares from the original four (4) hectares has not been clarified.

1.2 Further, the statement of financial position reflects property, plant and equipment comparative balance of Kshs.89,247,024 while Note 10 to the financial statements reflects Kshs.55,821,954 resulting to an unexplained variance of Kshs.33,425,070. In the circumstance, it has not been possible to confirm that the property, plant and equipment balance of Kshs.58,013,176 as at 30 June, 2016 is fairly stated.

2.0 Trade and Other Receivables

As previously reported, the trade and other receivables balance of Kshs.36,577,084 as at 30 June, 2016 includes analysis fees totalling to Kshs.6,013,120 owed by Kenya Medical Supplies Authority (KEMSA) which has been outstanding for more than eleven (11) years. A provision of three percent (3%) for bad and doubtful debts has been made in these accounts in respect of the outstanding analysis fees but the provision may be inadequate. Consequently, it has not been possible to confirm the validity and recoverability of the analysis fees totaling Kshs.6,013,120 and that the trade and other receivables balance of Kshs.36,577,084 is fairly stated as at 30 June, 2016.

3.0 Unsupported Government Grants

The total revenue of Kshs.111,989,505 in the statement of financial performance for the year ended 30 June 2016 includes Government grants (Recurrent and Development)

of Kshs.53,575,462 comprising of Recurrent Kshs.50,288,147 and Development Kshs.3,287,315 whose supporting documents/schedules were not availed for audit review. No explanation has been provided for failure to avail the supporting documents.

Further, the government grants balance of Kshs.53,575,462 comprising of the recurrent grant of Kshs.50,288,147 and development grant of Kshs.3,287,315 differed with the total government grants in records at the parent Ministry of Health of Kshs.143,245,951 comprising of recurrent grant of Kshs.131,008,176 and development grant of Kshs.12,237,775. This resulted in a variance of Kshs.80,720,029 for recurrent grant and Kshs.8,950,460 for development grant. No explanation has been provided by the management for failure to reconcile the two sets of records.

Consequently, it has not been possible to confirm the validity and accuracy of total revenue of Kshs.111,989,505 and Government grants of Kshs.53,575,462 reflected in the statement of financial performance for the year ended 30 June, 2016.

4.0 Variances between Financial Statements and Supporting Schedules

The financial statements presented for audit contain unexplained variances as detailed below:-

Item	Financial Statement Balance Kshs.	Supporting Schedule Balances Kshs.	Variance Kshs.
Revenues			
GTZ Donations	4,178,207	0	4,178,207
Admin. Expenses			
Repair & Main.	9,977,393	5,799,186	4,178,207
Depreciation	18,913,715	7,512,882	11,400,833
Property, Plant and Equipment,			
Net Book Value	58,013,176	0	58,013,176
Furniture and Fittings	0	384,763	(384,763)
Current Assets			
Inventories (Stock)	47,975,766	43,797,558	4,178,208
Government Grants			
Recurrent Grant	50,288,147	41,943,109	8,345,038
Development Grant	3,287,315	0	3,287,315
Total	192,633,719	99,437,498	93,196,221

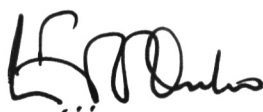
Consequently, the accuracy, validity and completeness of these financial statements for the year ended 30 June 2016 could not be confirmed.

5.0 Trade and Other Payables

As previously reported, the trade and other payables balance of Kshs.39,183,982 as at 30 June, 2016 includes unpaid/pending bills of Kshs.16,138,962 whose payment vouchers were not availed for audit review. Consequently, the propriety of trade and other payables balance of Kshs.39,183,982 in the statement of financial position as at 30 June, 2016 could not be confirmed.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.



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

Nairobi

24 April 2017

NATIONAL QUALITY CONTROL LABORATORY

XI. STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2015 - 2016 Kshs	2014 - 2015 Kshs
Revenues			
Deferred Income	04	7,512,882	8,574,696
GTZ – Donations (Renovations)	4 (iii)	4,178,207	0
Government Receipts –Recurrent	05(i)	50,288,147	23,642,203
Government Receipts-Development	05(ii)	3,287,315	12,623,592
Exchange Transactions			
Analysis Fees	05(iii)	46,722,954	27,718,700
Non - Exchange Transactions			
Extra Ordinary Income	05(iv)	0	78,000
Total Revenue		111,989,505	72,637,191
Expenses			
Provision for Audit Fees	06	127,600	116,000
Administrative Expenses	07	21,136,897	29,529,119
Personnel Emoluments	08	23,307,029	21,663,382
Board Expenses	09	1,722,954	1,233,438
Depreciation	10	18,589,611	18,406,294
Operating/ General Expenses	11	17,490,228	13,510,472
Finance Cost	12	181,283	123,681
Provision for Bad Debts	14	1,097,313	575,162
Total Expenses		83,652,915	85,157,548
Surplus for The Period		28,336,590	(12,520,357)

Note;

Non – exchange transactions revenue relates to sale of micro-organisms to other laboratories, cost of certified copies and external trainings.


NATIONAL QUALITY CONTROL LABORATORY

XII. STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Note	2015-2016 Kshs	2014-2015 Kshs
Assets			
Non - Current Assets			
Property, Plant and Equipment	10	58,013,176	89,247,024
Current Assets			
Cash and Cash Equivalents	13	10,708,116	7,037,970
Trade and Other Receivables	14	36,577,084	19,172,056
Inventories (Stock)	15	47,975,766	15,831,668
Total Assets		153,274,142	131,288,718
Current Liabilities			
Deferred Income – Donations	04	52,431,829	59,950,577
Trade and Other Payables (Gratuity)	06 (a & b)	39,183,982	38,538,551
Provision for Bad Debts	14	1,097,313	575,162
Total Liabilities		92,713,124	99,064,290
Net Assets			
Reserves		32,224,428	(12,520,357)
Surplus /Deficit for The Year	16	28,336,590	32,224,428
		60,561,018	19,704,071
Total Net Assets and Liabilities		153,274,142	131,288,718

The Financial Statements set out on pages 17 to 21 were signed on behalf of the Board of Management by:



Dr. Hezekiah Kibet Chepkwony, PhD
Director & Secretary to the Board

Date

10th / APR. / 17



Mr. John Sitienei Ronoh
Chairman

Date

10 / 4 / 2017.



NATIONAL QUALITY CONTROL LABORATORY

XIII. STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 30 JUNE 2016

	Note	Accumulated Surplus Kshs	Totals Kshs
Balance at 30th June, 2014		44,744,785	44,744,785
Surplus / Deficit for the Year		(12,520,357)	(12,520,357)
Balance as at 30th June, 2015	16	32,224,428	32,224,428
Surplus / Deficit for the Year		28,336,590	28,336,590
Balance as at 30th June, 2016	16	60,561,018	60,561,018

NATIONAL QUALITY CONTROL LABORATORY

XIV. STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2015-2016	2014-2015
Cash Flows From Operating Activities;			
Receipt			
Differed Income (Public Contributions)	04	7,512,882	8,574,696
GTZ 1994 Donations (Renovations NBV)	04(iii)	4,178,207	0
Government Grants and Subsidies (Recurrent & Development)	05(i-ii)	53,575,462	36,265,795
Analysis Fees	05(iii)	46,722,954	27,718,700
Rendering Of Services - Extra Ordinary	05	-	-
Sale Of Goods –Extra Ordinary	05(iv)	-	78,000
Stock / Inventories	15	47,975,766	15,831,668
		159,965,271	88,468,859
Payments			
Goods and Services (21136897+17490228)	7&11	38,627,125	27,718,700
(Compensation of Employees – Salary)	08a	18,231,403	14,162,908
Taxation Paid (PAYE)	08b	5,075,626	3,865,518
Finance Cost	12	181,283	123,681
Board Expenses/Other Payments	09	1,722,954	1,233,438
Total Cash Outflows from Operating Activities		(63,838,391)	(47,104,245)
Net Cash Flows From Operating Activities		96,126, 880	41,364,614
Cash Flows From Investing Activities;			
Purchase of Property, Plant, Equipment And Intangible Assets	10	(38,773,002)	70,573,546
(Increase) / Decrease In Non-Current Receivables	14	(17,405,028)	3,068,737
(Increase) / Decrease In Investments		-	-
Net Cash Flows Used In Investing Activities		(56,178,030)	(67,504,809)
Cash Flows From Financing Activities;			
Increase (Decrease) in Deposits	13	7,037,970	(19,314,638)
Net Cash Flows Used in Financing Activities		7,037,970	(19,499,342)
Net Increase/(Decrease) in Cash and Cash Equivalents			
Cash and Cash Equivalentents at 1 st July 2015	13	7,037,970	26,352,608
Cash and Cash Equivalentents at 30th June 2016	13	10,708,116	7,037970

NATIONAL QUALITY CONTROL LABORATORY

IV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

FOR THE YEAR ENDED 30 JUNE 2016

Period	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Performance Difference	Note
	2015-2016	2015-2016	2015-2016	2015-2016	2015-2016	
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs	
Government Grants	171,584,000	-	171,584,000	53,575,462	(118,008,538)	A(i)
Donations	8,574,696	-	8,574,696	7,512,882	(1,061,814)	
GTZ – renovations NBV B/D	0	4,178,207	4,178,207	4,178,207	0	
Analysis Fees	20,000,000	-	20,000,000	46,722,954	26,722,954	F(ii)
Extra Ordinary Income	-	-	-	-	0	
		-	-	-	-	
Total Revenue	200,158,696	4,178,207	204,336,903	111,989,505	(92,347,398)	A(iii)
Expenditure						
Operating / General Expenses	58,092,000	-	58,092,000	17,490,228	42,581,772	F(iv)
Personnel Expenses	50,370,000	-	50,370,000	23,307,029	26,993,572	F(v)
Administrative Expenses	74,964,000	4,178,207	79,142,207	21,136,897	58,005,310	F(vi)
Board Expenses	2,281,000	-	2,281,000	1,722,954	558,046	
Finance Cost	235,000	-	235,000	181,283	53,717	
Provision For Audit Fees	200,000	-	200,000	127,600	72,400	
Provision For Bad Debts	-	-	-	1,097,313	(1,097,313)	
Depreciation	19,273,000	-	19,273,000	18,913,715	359,285	
Total Expenditure	203,134,000	4,178,207	209,593,207	83,977,019	125,616,188	A(vii)
Surplus (Deficit) For The Period	(2,975,304)	0	(5,256,304)	28,012,486	(33,268,790)	A(viii)

Note: Disclosures - Explanation on the Variance;

1. The difference partly relates to MoH – GoK funds on personal emoluments note (v) paid and accounted for at the MoH for the 23 seconded staff.
2. The favourable difference constitutes an increase in analysis fees due to upward review of the prices.
3. The overall resultant adverse variance between notes (i) and (ii) as explained above.
4. Notes (iv) and (vi) a favourable variance being operating and administrative expenses respectively is due to the difference between the budgeted and actual values.
5. Note (vii) adverse variance relates to the overall budget allocations expected against realised funds.
6. Note (viii) is the overall adverse variance resulting from under allocations from GoK – MoH resulting to an unbalanced budget.

NATIONAL QUALITY CONTROL LABORATORY

XVI. SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2016

1. Basis of Preparation

The accounts are prepared on the basis of historical cost convention and are in compliance with International Public Sector Accounting Standards (IPSAS- accrual).

Income

Income represents receipts from government and analysis fees charged on examination and testing of the drugs and any medicinal or substance.

Donations

Donations in form of non-current Assets are apportioned to the income statement over the expected useful life of the asset at the rates equivalent to the depreciation rate of the asset. The apportioned amount i.e. the charge is taken to the Income Statement

Depreciation

Depreciation of all the other assets is computed on a Straight line basis, **except** Laboratory Equipment which uses Reducing balance method as follows:-

Building	2.5% - Straight line
Laboratory Electronic Equipment	12.5% - Reducing balance
Furniture and Fittings	12.5% - Straight line
Office/ Electronic equipment	30.0% - Straight line
Auto-Mobile Machines (Generator & compressor)	12.5% - Straight line

Equipment/assets purchased, received, qualified/ commissioned (Installation, operation & performance), and held in the Laboratory for over six months shall suffer a full years depreciation charge, but equipment/assets held for less than Six Months do not qualify for the year's depreciation charge.

Provision for Bad and doubtful debts

The management provides for bad and doubtful debts at 3% on debtors, while stock is recognised at the lower of cost or net realizable value.

Inventories

Stock is recognised at the lower value of cost and net realizable value. A quarterly stock take to ascertain the current values has been proposed.

Deferred Assets- Renovation to Works

It is the cost of capital expenditure incurred on the renovations & improvements of the building owned by the School of Pharmacy, college of Health Sciences, University of Nairobi when NQCL was established to enable the compatibility with its.

Cash and Cash Equivalent

Comprises cash in hand, bank balances and short term deposits held in banks and financial Institution which is expressed in Kenya shillings (Kshs).

Revenue Recognition

Revenue is recognized to the extent that it is possible that the economic benefit will accrue to the Laboratory and be reliably measured.

NATIONAL QUALITY CONTROL LABORATORY

SIGNIFICANT ACCOUNTING POLICIES - continued

2. Statement of Compliance and Basis of Preparation – IPSAS 1

The entity's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the entity's values. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

3. Summary of Significant Accounting Policies

a) Revenue Recognition

i. Revenue From Non-Exchange Transactions – IPSAS 23

Fees, Taxes and Fines

The entity recognizes revenues from fees, taxes and fines when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

Transfers from Other Government Entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

ii. Revenue From Exchange Transactions– IPSAS 9

Rendering of Services - The entity recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labor hours incurred to date as a percentage of total estimated labor hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Sale of Goods - Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

Interest Income - Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

Dividends - Dividends or similar distributions must be recognized when the shareholder's or the entity's right to receive payments is established.

NATIONAL QUALITY CONTROL LABORATORY

SIGNIFICANT ACCOUNTING POLICIES - continued

Rental Income - Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

- b) **Budget information (IPSAS 24)** - The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

- c) **Taxes – IAS 12**

Current Income Tax - Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income.

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred Tax - Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

NATIONAL QUALITY CONTROL LABORATORY

SIGNIFICANT ACCOUNTING POLICIES - continued

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit.

Deferred tax items are recognized in correlation to the underlying transaction in net assets.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales Tax - Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or apart of the expense item, as applicable;
- When receivables and payables are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

- d) Investment Property (IPSAS 16)** - Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition. Transfers are made to or from investment property only when there is a change in use.

- e) Property, Plant and Equipment (IPSAS 17)** - All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

- f) Leases (IPSAS 13)** - Finance leases are leases that transfer substantially the entire risks and benefits incidental to ownership of the leased item to the Entity. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Entity also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

NATIONAL QUALITY CONTROL LABORATORY

SIGNIFICANT ACCOUNTING POLICIES - continued

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Entity will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Entity. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

- g) **Intangible Assets (IPSAS 31)** - Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.
- The useful life of the intangible assets is assessed as either finite or indefinite.

- i. **Research and Development Costs** - The Entity expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Entity can demonstrate:
- The technical feasibility of completing the asset so that the asset will be available for use or sale
 - Its intention to complete and its ability to use or sell the asset
 - How the asset will generate future economic benefits or service potential
 - The availability of resources to complete the asset
 - The ability to measure reliably the expenditure during development
- Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

h) **Financial Instruments – IPSAS 29**

Financial Assets

Initial Recognition and Measurement - Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Entity determines the classification of its financial assets at initial recognition.

Loans and Receivables - Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by

NATIONAL QUALITY CONTROL LABORATORY

SIGNIFICANT ACCOUNTING POLICIES - continued

taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Held-to-Maturity - Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Laboratory has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of Financial Assets - The Entity assesses at each reporting date whether there is objective evidence that a financial asset or entity of financial assets is impaired. A financial asset or entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or entity of debtors are experiencing significant financial difficulty,
- Default or delinquency in interest or principal payments,
- The probability that debtors will enter bankruptcy or other financial reorganization,
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults).

ii. Financial Liabilities

Initial Recognition and Measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Laboratory determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and Borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

IPSAS 29.65 - Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

- i) **Inventories – IPSAS 12** - Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition. Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method,

NATIONAL QUALITY CONTROL LABORATORY

SIGNIFICANT ACCOUNTING POLICIES – continued

- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Laboratory.

- j) **Provisions – IPSAS 19** - Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent Liabilities - The Entity does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent Assets - The Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

- k) **Nature and Purpose of Reserves** - The Entity creates and maintains reserves in terms of specific requirements. Entity to state the reserves maintained and appropriate policies adopted.
- l) **Changes in Accounting Policies and Estimates IPSAS 3** - The Entity recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

NATIONAL QUALITY CONTROL LABORATORY

SIGNIFICANT ACCOUNTING POLICIES – continued

m) Employee Benefits – IPSAS 25

Retirement Benefit Plans - The Entity provides retirement benefits for its employees and councilors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

- n) **Foreign Currency Transactions (IPSAS 4)** - Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.
- o) **Borrowing Costs (IPSAS 5)** - Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.
- p) **Related Parties (IPSAS 20)** - The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the councilors, the executive mayor, mayoral committee members, the city manager, deputy city manager and senior managers.
- q) **Service Concession Arrangements (IPSAS 32)** - The Entity analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Entity recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

NATIONAL QUALITY CONTROL LABORATORY

SIGNIFICANT ACCOUNTING POLICIES – continued

- r) **Cash and Cash Equivalents** - Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprest and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.
- s) **Comparative Figures** - Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.
- t) **Significant Judgments and Sources of Estimation Uncertainty (IPSAS 1)** - The preparation of the Entity's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. All judgments, estimates and assumptions made have been stated.

Estimates and Assumptions - The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur IPSAS 1.140

Useful Lives and Residual Values - The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

Provisions - Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 36.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

NATIONAL QUALITY CONTROL LABORATORY

SIGNIFICANT ACCOUNTING POLICIES – continued

Assumptions were used in determining the provision for rehabilitation of landfill sites. Landfill areas are rehabilitated over years and the assumption was made that the areas stay the same in size for a number of years.

Provision is made for the estimated cost to be incurred on the long-term environmental obligations, comprising expenditure on pollution control and closure over the estimated life of the landfill. The provision is based on the advice and judgment of qualified engineers.

The estimates are discounted at a pre-tax discount rate that reflects current market assessments of the time value of money.

The increase in the rehabilitation provision due to passage of time is recognized as finance cost in the statement of financial performance.

The cost of on-going programs to prevent and control pollution and rehabilitate the environment is recognized as an expense when incurred.

- u) **Subsequent Events (IPSAS 14)** - There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2015.

NATIONAL QUALITY CONTROL LABORATORY

XVII. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

4. DEFERRED INCOME (DONATED ASSETS)

Assets	Cost as at Stated date	Balance B/D 2012/2013	Charge for year 2013/2014	Balance B/D 2013/2014	Charge for the year 2014/2015	Balance B/D 2014/2015	Charge for the year 2015/2016	Balance B/D 2015/2016
Furniture & Fittings 2008/09	6 35,998	49,409	6,176	43,233	6,176	38601	6,176	32,425
Office electronic Equipment 2012/13	73,767	73,767	22,130	51,637	22,130	29,507	22,130	7,377
Lab Electronic Equipment (B/D 2012/13)	10,419,395	5,170,446	646,306	4,524,140	565,518	3,958,623	494,829	3,463,795
Lab Electronic Equipment HPLC 2013/14	33,008,867	22,882,759	3,610,345	25,272,414	3,159,052	22,113,362	2,764,170	19,349,192
Lab Electronic Equipment – Isolator 2014/15	38,633,848	0	0	0	4,829,231	33,804,617	4,225,577	29,579,040
	<u>82,135,877</u>	<u>28,176,381</u>	<u>4,284,957</u>	<u>29,891,424</u>	<u>8,582,107</u>	<u>59,944,710</u>	<u>7,512,882</u>	<u>52,431,829</u>

Note; Depreciation rates computation for Laboratory Equipment's is at 12.5% reducing balance while Furniture & Fittings 12.5%, Office/ Electronic Equipment 30% and Generator 12.5% are all straight-line.

Donations-disclosures as follows:

- i. In 2008/2009 UNFPA donated furniture of (Ksh.537, 660 + 98,338) ksh.635, 998 and in 2012 /2013 and Laboratory Equipment (Ksh.6,505,686 + 3,913,709) Kshs 10,419,395.
- ii. In 2013/14 Chemonics - USAID (Kenya Pharma) LLC donated Laboratory Equipment - 7 HPLC of Ksh. 33,008,867 in May, 2014 an Isolator received of US\$440,000 (Ksh.38, 633,848) NOT included in F.Y. 2013/14 Financial statements as per our qualification/ commissioning policy (installation, operation & performance) on new equipment/ assets received.
- iii. Donations (**Renovations expense**) from **GTZ in 1994 of ksh. 7,249,682** which was erroneously capitalised and over the years treated as a Note 10 (PPE - Buildings) item with a depreciation charge of 2.5% is now dully expensed and adjusted (the current carrying amount – NBV residual is ksh. 4,178,207) from the assets register and the financial statements as per the Auditor General's letter and advice Ref; DNQCL/2015-2016/(9) dated 22 March, 2017.

5. (a) INCOMES (Kshs)	2015/2016	2014/2015
i. Government Grants – Recurrent	50,288,147	23,642,203
ii. Government Grants – Development	3,287,315	12,623,592
SUB – TOTAL	53,575,462	36,265,795
iii. Non-Exchange Transactions (Analysis Fees)	46,722,954	27,718,700
iv. Others incomes - Exchange Transactions	-	78,000
v. Deferred incomes (Note 4)	7,512,882	8,574,696
vi. GTZ – Donations	4,178,207	0
TOTAL	111,989,505	72,637,191

NATIONAL QUALITY CONTROL LABORATORY

NOTES TO THE FINANCIAL STATEMENTS - continued

6. TRADE & OTHER PAYABLES (Kshs)

(a)	Prepayments-for Analysis Fess	17,109,722	5,431,923
	Chemicals & Reagents (6717360+415984)	7,133,344	7,922,700
	Repairs & Maintenance (7579723+182900)	7,762,623	5,713,525
	Electricity	327,905	737,981
	Chemicals & Reagents Various	0	2,532,800
	Furniture/Ware	-	1,825,375
	Equipment	115,095	10,144,400
	Stationery (490000+172500)	662,500	650,000
	Provision for Audit fees	127,600	116,000
	Buildings	1,023,973	0
	Office / General Expenses	82,480	0
	Training (St. John's)	60,000	0
	Personnel (NHIF, NSSF, PAYE 17900+28000+792197)	838,097	0
	Accommodation - BOM	270,000	0
(b)	Employee Benefit Obligation (Gratuity 2015 - 16)	3,670,643	0

GRAND TOTALS **39,183,982** **32,541,904**

Market risk disclosures – A proper (documented market survey) with a strong internal audit function as per the approved budgets will counter the risk.

7. ADMINISTRATIVE EXPENSES (Kshs)

Printing & Stationery		2,212,793	5,341,062
Professional & Consultancy fees		1,420,078	484,818
Repairs & Maintenance (1994Renovations 4178207)		9,977,393	14,971,470
Travelling & Accommodation Expenses		2,152,377	1,821,406
Motor Vehicle Running Expenses		374,572	1,280,703
Office / General Expense		1,944,995	1,922,319
Water & Electricity Expenses		-	-
Telephone & Postage & Internet		1,321,295	921,306
Training Expenses		1,053,862	1,460,168
Miscellaneous Expenses		679,532	1,325,867
TOTAL		21,136,897	29,529,119

8. PERSONNEL EMOLUMENTS (Kshs)

Includes ; Basic Salary and Allowances (House, Travelling, Risk, Medical & Overtime)		16,116,894	14,162,908
N.S.S.F (National Social Security Fund)		53,600	96,009
These are the staff contribution for Social Security Fund for the period 2015/16			
N.H.I.F (National Hospital Insurance Fund)		332,585	75,100
This is a statutory deduction from the staff for 2015/16.			
P.A.Y.E (Pay As You Earn)			
This is a statutory deductions from the staff's emoluments remitted to KRA during the period 2015/16			
		5,075,626	3,865,518
Gratuity / Lump sum pay		1,728,324	3,463,847
Employees unpaid obligation to the contracted staff for the period July, 2015 to June, 2016.			
TOTAL		23,307,029	21,663,382

NATIONAL QUALITY CONTROL LABORATORY

NOTES TO THE FINANCIAL STATEMENTS - continued

9. BOARD OF MANAGEMENT EXPENSES (Kshs)

Sitting Allowance	680,000	600,000
Mileage Allowance	923,954	548,938
Accommodation Allowance	5,000	2,500
Lunch/Snacks Allowance	114,000	82,000

TOTAL	1,722,954	1,233,438
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10. DEPRECIATION

Charge for the period 2015/16 (Deferred income Note 04)	7,512,882	0
Charge for the period 2015/16 (Note 10 – PPE)	11,076,729	18,406,294

TOTAL	18,589,611	18,406,294
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NATIONAL QUALITY CONTROL LABORATORY

10. PROPERTY, PLANT AND EQUIPMENT COMPUTATIONS FOR 2015/2016

DEP. METHOD & RATE/ POLICY	Buildings - Renovation	Lab. (Electronic) Equipment	Furniture & Fittings	Office (Electronic) Equipment	Auto motives (Generator)	Totals (Kshs)
	Straight Line - 2.5%	Reducing Balance - 12.5%	Straight Line - 12.5%	Straight Line – 30%	Straight Line - 12.5%	
COST	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
As at 01 July 2013	7,249,682	81,644,029	3,175,054	12,744,512	600,000	105,413,277
Additions	-	-	-	-	7,741,974	7,741,974
Disposals/ Transfers/adjustments	-	-	-	-	-	-
As at 01 July 2014	7,249,682	81,644,029	3,175,054	12,722,512	8,341,974	113,133,251
Additions 2014/15	8,785,964	8,269,560	3,940,500	3,201,700	-	24,197,724
Less – Donations / Disposal	-	-	-	-12,722,512	-600,000	-13,322,512
- Transfer/Adjustments B/D	-	-	-	-	-	-
Cost / NBV as at 30 June 2014	16,035,646	89,913,589	7,115,554	3,201,700	7,741,974	124,008,463
Depreciation and or Impairment						
As at July 2013	2,890,233	41,874,975	2,817,712	-11,725,187	-	35,857,733
Depreciation 2013/14	181,242	11,239,199	396,882	-382,335	967,747	12,402,735
Accumulated Depreciation at 2014	3,071,475	53,114,174	3,214,594	-12,107,522	967,747	48,260,468
Depreciation for the year	400,891	4,599,927	889,444	960,510	967,747	7,818,519
Disposals / Impairment	-	-	-	-	-	-
Accumm. Depreciation as at June, 2015	3,472,366	57,714,101	4,104,038	-11,147,012	1,935,494	57,078,987
Net Book Values As at 30 June, 2015	12,563,280	32,199,488	3,011,516	2,241,190	5,806,480	55,821,954
Additions 2015-16	3,287,315	25,652,235	1,825,375	6,406,274	1,601,803	38,773,002
Cost / NBV as at 01 July 2015	15,850,595	57,851,723	4,836,891	8,647,464	7,408,283	94,594,956
Accumm Depreciation (as at 1 st July 2015)	3,472,366	11,239,199	4,104,038	960,510	1,935,494	21,711,607
Depreciation for the year, 2015 - 16	82,183	5,826,566	1,117,616	2,882,392	1,167,972	11,076,729
Accumm Depreciation (as at 1st July 2016)	3,554,207	17,065,765	5,221,654	3,842,902	3,103,466	32,788,336
Less – GTZ Donations adjustments NBV B/D	4,178,207	0	(384,762)	0	0	3,793,445
Net Book Values as at 30 June 2016	8,117,839	40,785,958	Nil	4,804,562	4,304,817	58,013,176

Note: the NBV relating to renovations by GTZ in 1994, which was erroneously treated as an asset (always attracting audit query) has now been reconciled from the assets register and an income (donation) recognized and duly expensed in compliance with the double entry concept and auditor general's advice, ref; NQCL/2015-2016/(9). The furniture and fittings computation 2015-16 gives a discarded negative net book value computations figure of (384,762) while the accumulated depreciation for equipment of 57,714,101 which had been reached at by including ksh. 38,633,848 donated assets now transferred to note 04 where it should be adjusted. Going forward the management will seek the help of Government valuers to ascertain the Assets' Net Realisable Values for purposes of correcting and re-stating the assets register.

NATIONAL QUALITY CONTROL LABORATORY

NOTES TO THE FINANCIAL STATEMENTS - continued

11. OPERATING / GENERAL EXPENSES (Includes)	2015/2016 (Kshs)	2014/2015 (Kshs)
Chemical & Reagent (Thro' NQCL A/Cs)	5,026,328	3,334,857
Chemical & Reagent (Thro' MOH VOTE)	12,463,900	4,548,047
Glassware (Thro' MOH VOTE)	0	5,627,568
TOTAL	17,490,228	13,510,472
12. FINANCE COST		
Foreign Exchange Loss	-	-
Bank Charges	181,283	123,681
TOTAL	181,283	123,681
13. CASH AND CASH EQUIVALENT		
National Bank of Kenya, Hill plaza (A/C 01001031744600)	12,900,646.8	7,548,485.3
Cash book Balance (Reconciled Balance)	10,708,116	7,037,877
Cash in Hand	-	93
TOTAL	10,708,116	7,037,970
Liquidity Risk Disclosure – ‘as is’ the situation is attracting urgent management attention to stay afloat and meeting obligation as Statutory, Operational and administrative/ managerial. Seriously affecting the going concern status. The use of the vote book is also essential in managing the liquidity risk.		
14. TRADE AND OTHER RECEIVABLES		
(a) Staff Salary Advances	150,000	248,424
Debtors (Various clients) - collectable	28,800,767	12,910,512
KEMSA2004, UNDP, GOSS (SH.6013120+1476930+136267)	7,626,317	6,013,120
TOTAL	36,577,084	19,172,056
(b) Provision for Bad & Doubtful Debts (3% on the total of Trade and Other Receivables).	1,097,313	575,162
(i) Related party disclosures - includes KEMSA ksh 16,127,850 PPB, ksh. 1,197,190, MoH ksh. 12,236,795 and NASCOP ksh. 7,090,329.		
(ii) Credit risk disclosures – The management must apply our 100% advance pay policy uniformly to all clients, Government institutions, Programmes’ and private clients equally. All contracts signed with clients should carry a 100% advance pay clause to avoid accumulation of receivables and bad debt portfolio hence the risk.		
15. INVENTORIES / STOCK		
Chemicals & Reagents, (MOH& NQCL)	21,415,282	9,774,990
Glassware	3,574,484	5,404,988
Stationery (MOH & NQCL)	22,986,000	651,690
TOTAL	47,975,766	15,831,668
16. ACCUMULATIVE SURPLUS		
Balance B/d	32,224,428	44,744,785
Surplus /(Deficit) for the year	28,336,590	(12,520,357)
TOTAL	60,561,018	32,224,428

Note;* Denotes corrected balance

- 2013-14 depreciation charge @ 30% for Office equip is Ksh. 3,823,354 not Ksh 383,335 hence equipment should be fully depreciated by 1st July, 2014
- 2014-15 addition is Ksh.8, 269,560 and not Ksh 46,722,375 as Ksh. 38,633,383 relates to donations (deferred income).
- Office equipment’s Cost/ N.B.V Ksh Ksh 12,744,512 was disposed off (donated to i University of Nairobi- school of Pharmacy) in 2014-15 its accumulated depreciation being Ksh 11,725,187.

NATIONAL QUALITY CONTROL LABORATORY

I. PROGRESS ON FOLLOW UP OF AUDITOR'S RECOMMENDATIONS FOR THE YEAR ENDED 30 JUNE 2016.

The following is the summary of issues raised and or upheld by the external auditor (Kenya National Audit Office) in F.Y 2013/14 through 2014/15 Audit review and the management assertion that were provided to the auditor. We have nominated focal persons to resolve them as shown below within the associated time frame.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management Comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
S/No. 4	Financial report doesn't have – corporate governance and social responsibility statement, Chairman's report, report of the Chief Executive officer. There are no details of key qualifications, areas of responsibility, photos, date of birth of the Board of Directors	A brief on the corporate governance, corporate social responsibility, the Chairman's statement and the chief executive's report has been provided in pages 4 & 5 above. The qualifications, responsibilities and other required details of the Board were to be provided for the 2014/15 BOM members this was not previously done.	Dr. H. K. Chepkwony, PhD	Resolved Awaiting only photos of 2 BOM	2016/2017 FY
S/No. 5	Explanations on material variances between budgeted and Actual amounts not provided, for MoH or NQCL A.I.A sources.	The MoH variance can best be explained by the respective MoH finance and or procurement departments/officers NQCL needed to service commitments made to suppliers as Authority from the Principal Secretary (MoH) was sought on the same and approval granted.	Dr. P. M. Wanjala	Resolved Partially	2016/2017 FY
S/No. 9	No accounting policies for nature and purpose of reserves, financial instruments (receivables) was provided	The Board is now (December, 2014) reconstituted and inaugurated (January, 2015) will work on the issue of the nature and purpose of reserves and the financial instruments policy as observed.	Dr. H. K. Chepkwony, PhD	Not resolved	2016/2017 FY
S/No. 10	The Laboratory should disclose PSASB pronouncements on statement of compliance of how the Board was formed under PFM Act 2014, gazettelement of the standards and the effective date	The Board will take up the issue of standards as per PSASB pronouncements and gazettelement. But the Board is formed as set out in the Pharmacy and Poisons Board Act Cap 244 Sec 35. However the Laboratory currently operate as a SAGAS under the MoH	Dr. H.K. Chepkwony, PhD & Dr. P. M. Wanjala	Resolved Partially	2016/2017 FY
S/No. 11	Non-disclosure of financial risks management in compliance with IPSAS 30	To mitigate against credit risk and liquidity risk the management using standard operating procedures (SOP) has instructed clients to pay in advance. On market risk the Board is to address challenges around our mandate being	Dr. H.K. Chepkwony, PhD & Dr. P. M. Wanjala	Resolved Partially	2016/2017 FY

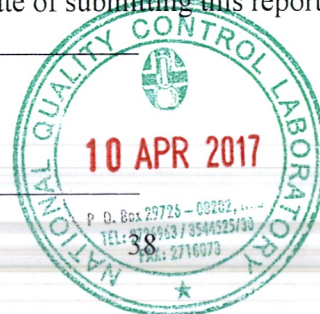
NATIONAL QUALITY CONTROL LABORATORY

Reference No. on the external audit Report	Issue / Observations from Auditor	Management Comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		usurped by PPB for its effective execution and customer satisfaction hence checks against market risks.			
2013/2014 Audited Accounts - Opinion	(1) Property, Plant and Equipment ✓ 4 Hectares Land encroached by KMTC, Kenya-Re and KNH	The Management has legally repossessed - 1.26 Ha encroached upon by Kenya Times Media Trust and sold to the Kenya- Re - 1.35 Ha fenced off by KNH is at an advanced stage of being reposed. - Once the matter is resolved the total land will be Revalued. - We intend to comply with IPSAS 16 in accounting for this asset	Dr. Hezekiah K. Chepkwony, PhD	Resolved Partially	2016/2017 FY
2013/2014 Audited Accounts - Opinion	(2) Trade and other receivables	-Compliance with IPSAS19, contingent assets treatment	Dr. George Wang'ang'a	Not Resolved	2016/2017 FY
2013/2014 Audited Accounts - Opinion	(3) Government grants	- We will apply IPSAS 20 (related party transaction) matter	Dr. Hezekiah K. Chepkwony, PhD	Not Resolved	2016/2017 FY

Guidance Notes:

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- (iv) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.

[Handwritten Signature]
Dr. Hezekiah Kibet Chepkwony, PhD
 Director & Secretary to the Board
 Date 10th APR. 17



[Handwritten Signature]
Mr. John Sitienei Ronoh
 Chairman

10/4/2017