

REPUBLIC OF KENYA



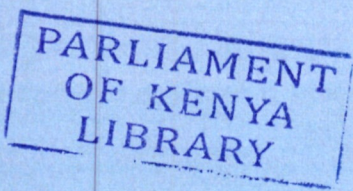
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OFFICE OF THE AUDITOR-GENERAL



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REPORT

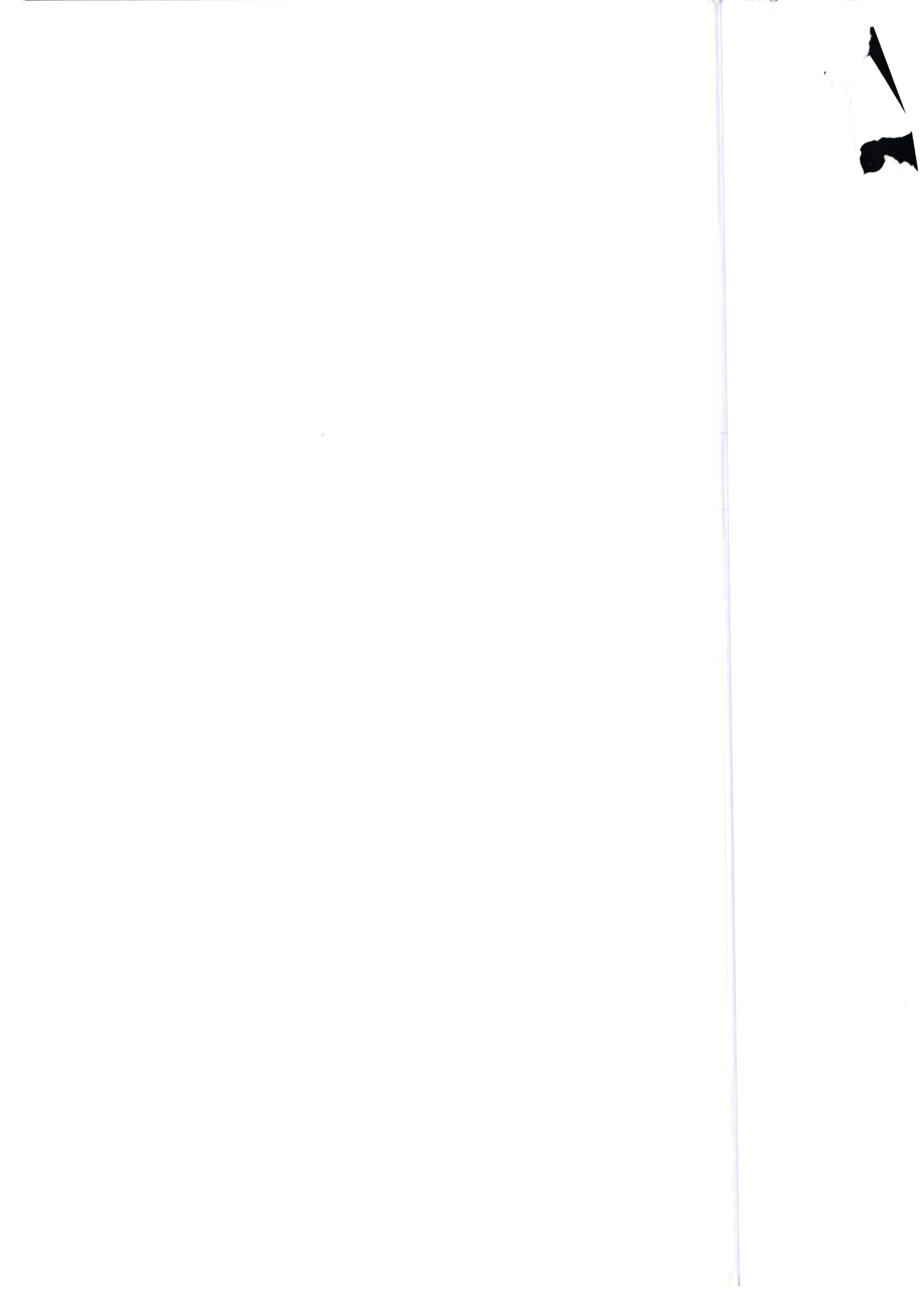
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
SCHOOL EQUIPMENT PRODUCTION UNIT**

**FOR THE YEAR
ENDED 30 JUNE 2017**





SCHOOL EQUIPMENT PRODUCTION UNIT

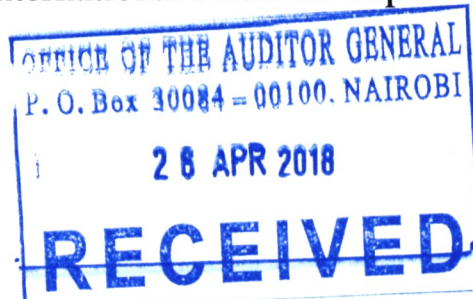
ANNUAL REPORT

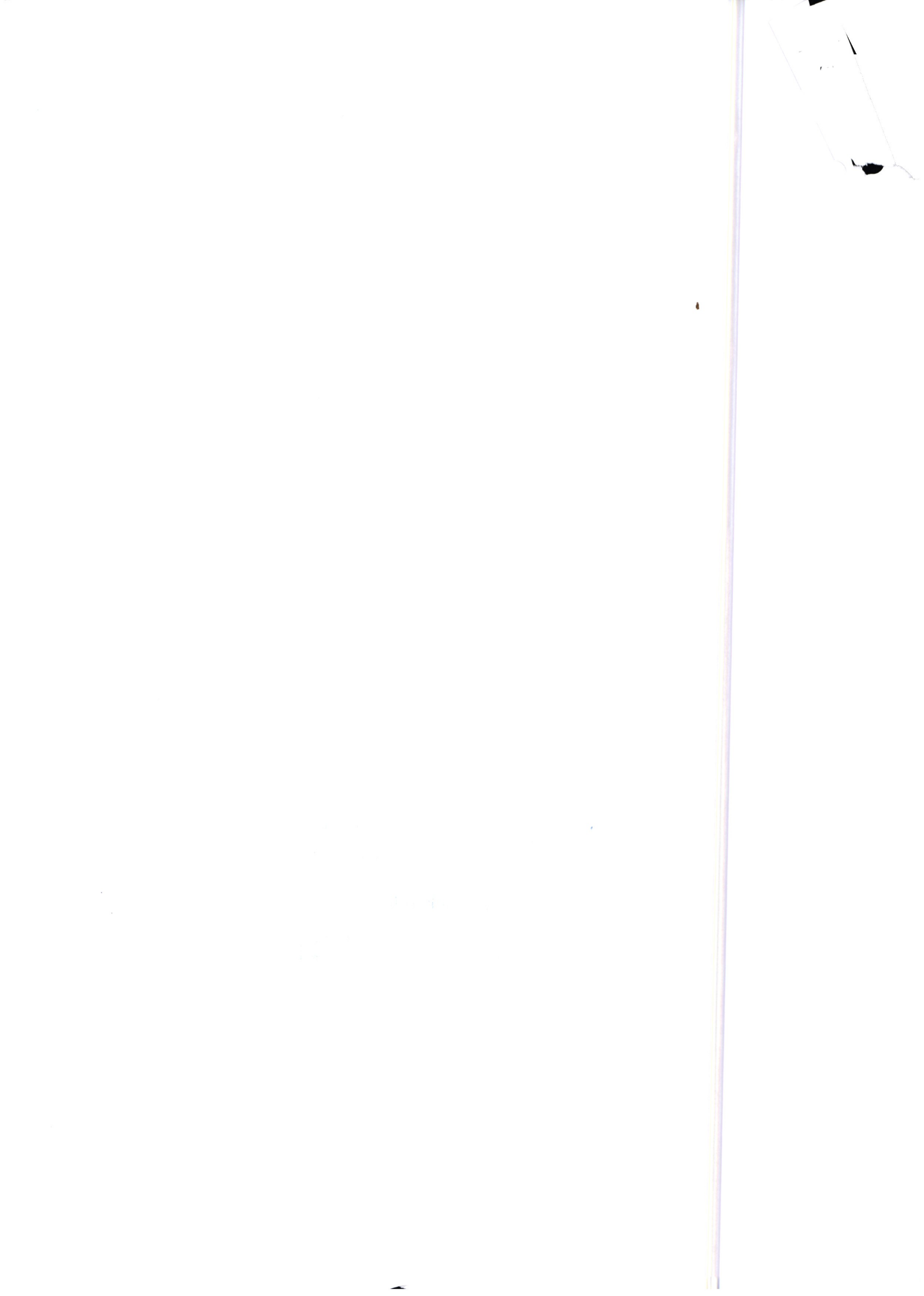
AND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE, 2017

Prepared in accordance with the Accrual Basis of Accounting
Method under the International Financial Reporting Standards(IFRS)





SCHOOL EQUIPMENT PRODUCTION UNIT
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE, 2017
A company limited by guarantee and not having share capital

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**SCHOOL EQUIPMENT PRODUCTION UNIT
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE, 2017**

Corporate Information

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

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

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

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


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

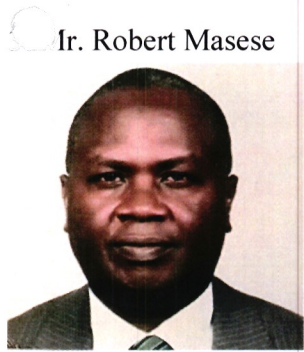
Auditors **The Auditor General,**
 Anniversary Towers
 P.O. Box 30084-00100,
 Nairobi.

SCHOOL EQUIPMENT PRODUCTION UNIT

Annual Report and Financial Statements For the year ended 30 June, 2017

THE BOARD OF DIRECTORS

DIRECTOR'S NAME	KEY QUALIFICATIONS AND EXPERIENCE
<p data-bbox="60 562 368 591">1. Dr. Julius Ouma Jwan</p>  <p data-bbox="92 1088 469 1279">The Chief Executive Officer, Kenya Institute of Curriculum Development, Chairman</p>	<p data-bbox="582 562 884 591">Dr. Julius Ouma Jwan</p> <p data-bbox="582 640 1522 976">Dr. Julius Jwan, year of birth 1965. He holds a PhD Degree in Educational Leadership & Management from the UK. He holds three masters degrees: a Master of Science (MSc) Degree in Educational Research Methods from the UK; a Master of Philosophy (MPhil) Degree in Education Communication & Management from Norway and another Master of Philosophy (MPhil) Degree in Linguistics from Moi University – Kenya, where he also graduated with a Bachelor of Education Degree.</p> <p data-bbox="582 1055 1522 1346">He was the Director – Programmes and Technical Services at the National Cohesion and Integration Commission (NCIC). Before joining the Commission, he was a lecturer at Moi University, School of Human Resource Development for over thirteen years – rising from the position of Tutorial Fellow to Senior Lecturer. Prior to that he was a teacher at a Secondary School in Homa-bay County and Kaimosi Teachers' College for cumulative five years.</p> <p data-bbox="582 1402 1522 1727">Dr. Jwan has attended several fellowships and short courses including: <i>Procurement and Tendering Processes</i>; and <i>Senior Management Course for Public Officers</i> (both in Kenya); <i>Education for Sustainable Peace</i> (Germany); <i>Enhancing Governance and Financial Administration in Africa</i> (Botswana); <i>Transitional Justice and Governance in Africa</i> (South Africa); <i>Reconciliation as Process and Practice</i> (Sweden); <i>Democratic Governance for Development in Africa</i> (Uganda), among others.</p>



Alternate to Principal Secretary, State Department of Education, Ministry of Education,

Mr. Robert Masese,OGW

Mr. Robert Masese, year of birth 1956. He holds a masters degree in Education Management From University of Nairobi and Bachelor of Education (science) from the same University.

He is currently the Acting Director General, Ministry of Education prior to the current position he was Director of Secondary and Tertiary Education in the same Ministry. He was a teacher and Principal in several Secondary Schools and a Technical Training Institute.

He represents the Principal Secretary, Ministry of Education, as stipulated by the School Equipment Production Unit (SEPU) Act. A member of Finance and General Purposes and Human Resource Committee of the Board.

4. Mr. Jamleck Maina



Chief Principal
Kenya Technical Teachers College

Mr. Jamleck Maina

Mr. Jamleck Maina Kinyua, year of birth 1960. He is currently the Chief Principal of Kenya Technical Trainers College on job group R since 19th December 2014.

He has participated in Technical Education Conferences, African Commonwealth Association of Polytechnics in Africa (CAPA)

Currently he is the Nairobi Regional KATTI Secretary.

He has previously been promoted to various job groups rising from L to R.

In 2011, he was appointed chief principle in job group R.

He has also participated in Kenya Association of Technical Training Institutions (KATTI) and workshop.

He graduated from University of Nairobi BED. Mathematics and Physics in the year1985.

5. Mr. Solomon Thuo Ngahu



FA CPA Solomon Ngahu (PhD)

Alternate to Principal Secretary
National Treasury

FA. CPA Solomon Ngahu, year of birth 1977. Pursuing PhD In Business administration (Finance Option) at JKUAT. He holds a Master's degree (MBA-Finance) from JKUAT, Master of Science Public Finance (Msc-On-going)-University of London, Bachelor degree (Bcom)-First Class Honours from JKUAT, ESAMI: Preparation and Interpretation of Financial Statements, IMF; Government Financial Statistics Harmonization for EAC-Kigali Rwanda, IMF; Credit Management :Certified Credit Management Professional (CCP)K, Pedagogy Training; Overview to learning Process and Methodology-JKUAT, HIV & AIDS Mainstreaming Course, National Aids Control Council, Induction Training on Government Operations(GTI-Mombasa). Holds three Single Subject Diploma: Accounting Purchasing & Cost control(ICM)UK, Project Management(ICM)UK and Auditing & Taxation (ICM)UK. Finance & Banking; Certified Investment & Security Analyst (CISA)K, Administration; Certified Public Secretary(CPS)K, Certified Public Accountant (CPA)K. He is a member of ICPAK, ICIFA and KIM professional bodies

6. Mrs. TeresiaNyawira



Alternate to Chief Executive Officer,
National Commission for Science and
Technology Innovation

Ms. TeresiaNyawira

Ms. TeresiaNyawira was born in 1972. She has a Bachelor of Education (Science) and a Master of Science from Kenyatta University. She has undergone short course trainings in Research Ethics (UNESCO), Project Planning and Management (Capacity Africa), Senior Management Course and Strategic Leadership Development Programme (Kenya School of Government). She is currently pursuing a PhD in Molecular Medicine from Jomo Kenyatta University of Agriculture and Technology, and a Master of Art degree in Monitoring and Evaluation.

She has 14 years' experience of teaching sciences in both secondary and tertiary institution. For the last eight years, she has been involved in coordinating national programmes which include the Science Technology and Innovation research grant and the National Research Ethics programme. She is also well versed in policy formulation having participated in drafting several national policies and guidelines in research regulation.

She sits in the SEPU Board as an alternate representative of the Director General, National Commission for Science Technology and Innovation.

THE MANAGEMENT TEAM

2. Mrs. Perpetua S. Wanaswa,OGW



Managing Director (Ag.)

Mrs. Perpetua S. Wanaswa, OGW

Mrs. Perpetua Wanaswa, year of birth 1961. Pursuing PhD in Business Administration (Strategic Management option) at UON. She is a holder of (Masters degree in Business Administration (Strategic Management option) from Daystar University. Bachelor of Business Administration (Finance and Accounting option) from Kenya Methodist University. CPA 1 and ACNC from Institute of Certified public Accountants, and Computer Application from Computer for Schools. Has offered services during the National Elections in Kenya in the year 2002 and 2007 as a Clerk and deputy Presiding Officer respectively in Nairobi County.

She is a member of Board of Management for Kivaywa Secondary School, ICIFA and Kim Professional Studies. Has attended various seminars and workshops in various Institutions. Employed by SEPU as a Junior Clerk in Accounts Department and rose up the ranks of Head of Finance Department. In January 2010 was appointed the Acting Managing Director to date.

Awarded the order of the Grand Worrier of Kenya, (OGW) by His Excellency the President in 2013. For the outstanding performance.

Ag Managing Director from 14th January,2010-31st July,2017

2.Mr. Dickson L. Ole Keis



Mr. Dickson L. Ole Keis

Mr. Dickson L. Ole Keis, year of birth 1958.

He holds a Masters degree in Education Management, Policy and Curriculum studies from Kenyatta University and a Bachelors Degree in Arts from the University of Nairobi.

He has served in the following Districts as a District Education Officer; Trans Mara, Turkana and Kilifi.

He has also served as a County Director of Education in Kilifi County and Regional Co-ordinator of Education in Coast Region.

He also served as a Chief Executive Officer for National Council for Nomadic Education in Kenya (NACONEK).

He is currently the AG. Managing Director – School Equipment Production Unit.

He has visited the following Countries on Educational related assignments: Turkey, Bangladesh and Japan.

He is a Substantive Deputy Director of Education JG ‘R’.

Ag Managing Director with effect from 1st August,2017

3. Mr. Philip Onyango



Production Manager (Ag.)

Mr. Philip Onyango

Mr Philip Onyango, year of birth 1976. He has a Diploma in Mechanical Engineering (Production Option) from Jomo Kenyatta University Of Agriculture and Technology. He is currently pursuing a Degree in Project Planning and Management from the University of Nairobi. He is the Acting Production Manager at SEPU.

4. Mr. Allan Akwabi Weche



Sales Representative.

Mr. Allan Akwabi Weche, year of birth 1982. He holds a Higher Diploma in Sales Management and Market from The Institute of Commercial Management UK and currently pursuing a Bachelor of Commerce degree at Mount Kenya University.

Aggressive Sales Representative with exceptionally strong professional networking skills. Adept at identifying growing opportunities.

Worked with executive team to redesign the website to help bring in more leads. He is currently the Sales Representative.

5. Mrs. Salome Odek

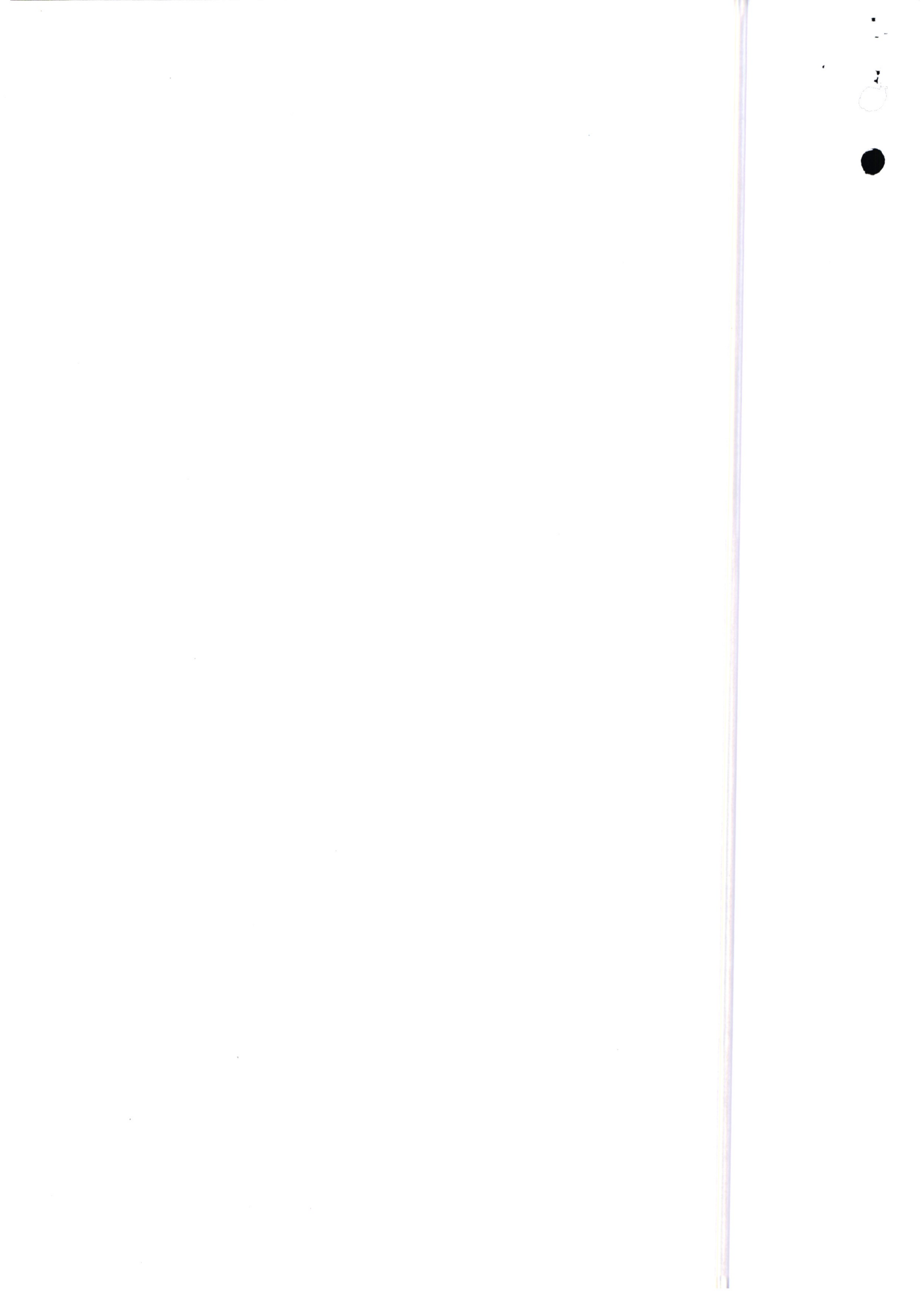


Accountant

Mrs. Salome Odek

Mrs. Salome Odek, year of birth 1982.

She is a holder of Certified Public Accountant (CPA) part III. She is currently pursuing degree in Bachelor of Commerce finance option from Kenyatta University. She is currently the Accountant, School Equipment Production Unit.



6. Miss Rachael Achieng Wanyanga



Human Resource Officer

Miss Rachael Achieng Wanyanga

Miss. Rachael Achieng' Wanyanga, year of birth 1985.

Holds a Higher Diploma in Human Resource Management and Industrial Relations (2006) from Technical University of Mombasa

Currently pursuing Degree in Bsc Human Resource Management at Moi University.

Associate member of the Institute of Human Resource Management (IHRM)

She is currently the Human Resource Officer.

SCHOOL EQUIPMENT PRODUCTION UNIT

Annual Report and Financial Statements For the year ended 30 June, 2017

CHAIRMAN'S STATEMENT

It is with great pleasure and honor that I on behalf of the Board of Directors announce another impressive year of record turnover and profitability of School Equipment Production Unit (SEPU) contained in the Annual reports and statements for the period ended 30th June, 2017.

OPERATING ENVIRONMENT

During the year under the review the manufacturing and supply of science equipment and materials faced some challenges including the increase of prices of raw materials and the finished products. However the Unit managed to supply to supply equipment and materials to learning institutions.

STRATEGIC POSITIONING

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

OVERVIEW OF FINANCIAL RESULTS

The Net Loss during the current financial year 2016/2017 is Kshs. 15,395,339.00 compared to profit before tax of Kshs. 19,407,104 in 2015/2016 representing a net loss of 79%. Gross Revenue is Kshs. 4,018,453 Million compared to Kshs. 38,925,317 in 2015/2016 representing a decrease of 90%. The year had opportunities where the Primary Science Kit and Secondary Science Kits were sold in the Counties but this had also challenges e.g. transportation of the products to remote places of Kilifi and Malindi County although the supply will improve the performance of Science in learning Institutions especially in the Coast Province.

SCHOOL EQUIPMENT PRODUCTION UNIT

**Annual Report and Financial Statements
For the year ended 30 June, 2017**

FUTURE PROSPECTS

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



Chairman Board of Directors

SCHOOL EQUIPMENT PRODUCTION UNIT

Annual Report and Financial Statements For the year ended 30 June, 2017

REPORT OF THE CHIEF EXECUTIVE OFFICER

INTRODUCTION

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

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

PERFORMANCE REVIEW

The Unit registered a loss of Kshs. 21,026,341 in the financial year 2016/2017 compared a profit before tax of Kshs. 19,407,104 in 2015/2016. In order to improve on the performance of the Unit, various strategies will be implemented e.g. advertising through the website and recruiting mainly sales men from different Counties who will work on commission and also advertising the products through different medias to create awareness of the Unit's products.

The Unit is in the completion stage of upgrading Secondary School Science Kit. These products will be made accessible to all counties.

Even though the Unit has been facing financial challenges, we are determined to improve on internal operations and generate revenue through effective strategies that have been set. These will be enhanced through sound leadership so that the Unit remains economically viable and contribute to the Country's growth.

BUSINESS REVIEW

The Unit continues to grow its products' portfolio in different segments through partnership with Centre of Mathematics, Science & Technology of Education in Africa (CEMASTECA) to ensure improvement in its production, modification and marketing of its science equipment and materials through workshops and seminars for teachers. This will be extended to other Countries.

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

SCHOOL EQUIPMENT PRODUCTION UNIT

Annual Report and Financial Statements For the year ended 30 June, 2017

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

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

PERFORMANCE CONTRACT AND ISO CERTIFICATION

SEPU entered into a negotiated performance contract for 2016/2017 (12th Cycle) with the Government of Kenya by setting targets in line with Strategic Plan 2014-2018 , second medium term 2014-2018 and the approved budgets for the financial Year 2016/2017.

Achieving most of the set targets for the year under review as evidenced by performance contract evaluation in August, 2016. This is due to the commitment of the Unit's Board of Directors and staff to continually improve performance and productivity. As a team we are positive in moving SEPU to better performance in all areas in the years ahead for more successes.

The Unit embrace the best practice by committing to ISO 9001-2008 quality Management and improving process and systems. SEPU has been ISO certified in this Financial Year.

Appreciation

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



Chief Executive Officer

SCHOOL EQUIPMENT PRODUCTION UNIT

Annual Report and Financial Statements For the year ended 30 June, 2017

STATEMENT OF CORPORATE GOVERNANCE

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

The Board

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

Name		Area of expertise
Dr. Julius O. Jwan	-	Administration and Education
Robert Masese	-	Administration and Education
Teresia Nyawira	-	Administration and Education
Jamleck Maina	-	Administration and Education
Solomon Ngahu	-	Finance and Accounting
Perpetua S. Wanaswa, OGW	-	Accounting and Administration
Dickson L Ole Keis	-	Administration

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

Board Composition.

The Board has five (5) members: The Chairman, Representative of Principal Secretary, Ministry of Education, National Treasury, Chief Principal Kenya Technical Trainers College, Chief Executive Officer National Commission for Science and Technology Innovation, and Managing Director, as per the Company Act Cap 486 of 1976 that established SEPU.

SCHOOL EQUIPMENT PRODUCTION UNIT

Annual Report and Financial Statements For the year ended 30 June, 2017

The role of Chairman and Chief Executive Officer.

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

Board Evaluation and Performance

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

SCHOOL EQUIPMENT PRODUCTION UNIT

Annual Report and Financial Statements For the year ended 30 June, 2017

BOARD AUDIT COMMITTEE

Members

Teresia Nyawira	-	Chairperson
Robert Masese	-	Member
Solomon Ngahu	-	Member
Perpetua S.Wanaswa, OGW	-	Managing Director

Role and function

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

Attendance

Number of meetings scheduled for 2016/2017 2

Teresia Nyawira	- Chairperson	2/2
Robert Masese	- Member	2/2
Perpetua S.Wanaswa,OGW	- Managing Director	2/2

BOARD FINANCE & GENERAL PURPOSES COMMITTEE

Member

Jamleck Maina	-	Chairman
Solomon Ngahu	-	Member
Perpetua S.Wanaswa, OGW	-	Managing Director

SCHOOL EQUIPMENT PRODUCTION UNIT

Annual Report and Financial Statements For the year ended 30 June, 2017

Finance and General Purposes and Human Resource Committee

Role and functions

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

Attendance

Number of meetings scheduled for 2016/2017

7

Jamleck Maina	-Chairman	6/7
Solomon Ngahu	-Member	7/7
Robert Masese	-Member	3/7
Perpetua S.Wanaswa,OGW	-Managing Director	7/7

BOARD HUMAN RESOURCE COMMITTEE

Member

Jamleck Maina	-	Chairman
Robert Masese	-	Member
Solomon Ngahu	-	Member
Perpetua S.Wanaswa, OGW	-	Managing Director

Role and functions

- Ensure effective Human Resource policies and strategies that support the Unit's Values, Vision, Mission and aspirations.
- Review and where significant, report to the Board best practices, trends, new technologies and current emerging public policy issues in human resource matters including but not limited to Occupational Health and Safety.

SCHOOL EQUIPMENT PRODUCTION UNIT

Annual Report and Financial Statements For the year ended 30 June, 2017

- Ensure the review of the position description of the Managing Director and the Board Chair's performance against corporate and personal objectives.
- Carry out any other related initiatives as may be necessary or desirable to enhance Board performance, including but not limited to Board learning and development.
- Annually review the total compensation guidelines and philosophies covering salary, bonus, long term incentives and benefits for Management and the Unit's staff, and review the market comparator groups.
- Review at least annually, and recommend to the Board for approval, the Managing Director compensation, based on the evaluation of the Managing Directors performance in light of corporate and individual objectives. Periodically review and recommend to the Board of approval, the Board's Chair total compensation package.
- Assess the learning and development needs of SEPU's Directors and staff and recommend learning opportunities which can be used by them to meet their needs for development.
- Handle disciplinary cases.
- Review terms of services.
- Review and recommend changes in remuneration for Delegates and Directors.
- Carry out Recruitment and Selection.

Attendance

Number of meetings scheduled for 2016/2017

7

Jamleck Maina	- Chairman	6/7
Robert Masese	- Member	3/7
Solomon Ngahu	- Member	7/7
Perpetua S.Wanaswa,OGW	- Managing Director	7/7

SCHOOL EQUIPMENT PRODUCTION UNIT

Annual Report and Financial Statements For the year ended 30 June, 2017

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

SOCIAL RESPONSIBILITY

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

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

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

**SCHOOL EQUIPMENT PRODUCTION UNIT
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE, 2017**

Report of the Board of Directors

The directors submit their report together with the audited financial statements for the Year ended 30th June 2017 which disclose the state of affairs of the company.

PRINCIPLE ACTIVITY

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

RESULTS

The results of the company are shown on page 1

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

RESERVES

The Directors propose to carry forward the balance of the retained earnings amounting to 57,140,897

DIRECTORS

The Directors who served during the year were:

1) Dr. Julius Ouma Jwan	Kenya Institute of Curriculum Development	-Chairman
2) Mr. Jamleck Maina	Kenya Technical Teachers College	-Member
3) Mr. Robert Masese	Ministry of Education, Science & Technology	-Member
4) Mrs. Teresia Nyawira	National Commission for Science, Technology and Innovation	-Member
5) Mr. Solomon Ngahu	National Treasury	-Member
6) Mrs. Perpetua S. Wanaswa, OGW	School Equipment Production unit	-Managing Director
7) Mr. Dickson L. Ole Keis	School Equipment Production unit	-Managing Director (1. 8. 2017)

**SCHOOL EQUIPMENT PRODUCTION UNIT
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE, 2017**

Statement of Directors Responsibilities

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

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

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

The financial statements were approved by the Board of directors on 20TH day of FEB and signed on its behalf by:

_____)
Chairman Board of Directors

_____)
Managing Director/ Secretary to the Board

Date: 20TH Day of FEB 2018

REPUBLIC OF KENYA

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Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON SCHOOL EQUIPMENT PRODUCTION UNIT FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of School Equipment Production Unit set out on pages 1 to 13, which comprise the statement of financial position as at 30 June 2017, 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 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the School Equipment Production Unit as at 30 June 2017, 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, 2015.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion section of my report, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Receivables and Prepayments

As previously reported, the receivables and prepayments balance of Kshs.81,944,212 as at 30 June 2017, includes debts totalling to Kshs.29,671,868 out of which Kshs.26,969,377 have been outstanding for more than eight (8) years and whose recoverability is doubtful. Further, the figure of Kshs.29,671,868 also includes Kshs.835,984 in respect of staff advances due from deceased employees and those who have since left the Unit and whose recoverability is doubtful. In the circumstances, it has not been possible to confirm that the receivables and prepayments balance of Kshs.81,944,212 as at 30 June, 2017 is fairly stated.

Report of the Auditor-General on the Financial Statements of School Equipment Production Unit for the year ended 30 June 2017

2. Trade and Other Payables

As reported in 2015/2016 audit report, the trade and other payables balance of Kshs.25,789,409 as at 30 June 2017 includes liabilities totalling to Kshs.8,767,910 that have been outstanding for more than 8 years and whose supporting documents were not availed for audit review. In the circumstances, it has not been possible to confirm the accuracy and validity of the trade and other payables balance of Kshs.25,789,409 as at 30 June 2017.

3. Land

As previously reported, the property, plant and equipment balance of Kshs.95,549,641 as at 30 June 2017 includes land at a cost of Kshs.63,000,000. The piece of Land identified as plot No.LR.209/14009, measuring 5.1 hectares, is situated at Imara Daima Estate, Industrial area and is registered under the Unit's name. However, although the land was allocated to the Unit in 1996, the Unit has not been able to develop it due to subsequent invasion by squatters. Although the management is aware of the invasion by squatters no evidence of any action being taken to protect the piece of land was availed for audit review, the land had not been repossessed as at 30 June 2017. In the circumstances, it has not been possible to ascertain the ownership status of the piece of land and to confirm that the property, plant and equipment balance of Kshs.95,549,641 as at 30 June 2017 is fairly stated.

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

Additional information indicate 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. A review of the matter in December 2017 revealed that judgement was entered in favour of the plaintiff (Vulcan Lab Equipment Ltd.) on 7 December 2017 and against the 1st defendant (SEPU) for a sum of Kshs.150 million cost and interest and no stay of execution given to SEPU. Although the management has availed evidence that the Supplier made a refund of Kshs.70,000,000 to the National Treasury in 2013/2014 financial year leaving a balance of Kshs.5,086,880 and undetermined interest on the principle amount, the funds had not been remitted to the Unit as at the date of this report.

Further, and as previously indicated under the Statement of changes in equity for the year 2014/2015, out of the Kshs.261,326,532 received from the parent Ministry, for acquiring laboratory equipment, chemicals and teaching aids, Kshs.40,044,282 was paid to the Kenya Revenue Authority to cover tax arrears and penalties. It was therefore not possible to ascertain whether the amount of Kshs.261,326,532 was expended as appropriated.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of School Equipment Production Unit in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional Judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section of my report, I confirm that there were no Key Audit Matters to report in the year under review.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Unit's ability in continuing as a going concern, disclosing, as applicable, matters related to going concern and using going concern basis of accounting unless the management either intends to liquidate the Unit or to cease operations, or have no realistic alternative but to do so.

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.

Those charged with governance are responsible for overseeing Unit's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Unit's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Unit's ability to continue as a going concern or to sustain services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Unit to cease to continue as a going concern or to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Unit to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

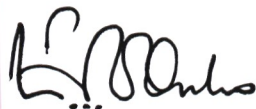
I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenya Companies Act, 2015, I report based on my audit, that:

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief were necessary for the purpose of the audit;
- (ii) In my opinion, proper books of account have been kept by the Unit, so far as appears from my examination of those books; and,
- (iii) The Unit's statement of financial position and statement of comprehensive income are in agreement with the books of account



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

Nairobi

19 April 2018

**SCHOOL EQUIPMENT PRODUCTION UNIT
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE, 2017**

Statement of Comprehensive Income

	Notes	2017 Kshs	2016 Kshs
Turnover	[2]	16,261,006	45,160,027
		16,261,006	45,160,027
Less cost of Sales	[3]	(12,013,838)	(6,234,710)
Gross Profit		4,247,168	38,925,317
Grants	[4a]	15,000,000	15,000,000
Investment income	[5]	5,168,327	7,780,825
Total Gross Income		24,415,495	61,706,142
EXPENDITURE			
Establishment Expenses	[6]	(884,049)	(1,203,390)
Board Expenses	[7]	(2,594,120)	(3,494,153)
Staff Costs	[8]	(20,280,353)	(18,348,046)
Operating Expenses	[9]	(9,684,126)	(5,953,427)
Other Operating Expenses	[10]	(8,990,958)	(10,799,922)
Selling expenses	[11]	(2,984,647)	(2,432,485)
Finance Costs	[12]	(23,583)	(67,615)
Total Expenses		(45,441,836)	(42,299,038)
Profit/ Loss for the year		(21,026,341)	19,407,104
Less Corporation Tax	[13]	-	(5,822,131)
Profit/ Loss for the year		(21,026,341)	13,584,973

The significant accounting policies and the notes set out on pages 6 to 13 forms an integral part of these financial statements.

**SCHOOL EQUIPMENT PRODUCTION UNIT
ANNUAL REPORT AND FINANCIAL STATEMENTS
AS AT 30 JUNE, 2017**


Statement of Financial Position

ASSETS	NOTE	2017 Kshs	2016 Kshs
Non current assets			
Property, Plant & Equipment	[14]	95,549,641	92,261,554
		95,549,641	92,261,554
Current assets			
Inventories	[15]	37,917,531	40,451,746
Receivables & Prepayments	[16]	81,944,212	91,630,056
Cash and bank balance	[17]	5,145,636	14,805,443
Investment (Call Deposit)	[18]	64,054,439	75,331,294
		189,061,818	222,218,539
TOTAL ASSETS		284,611,459	314,480,093
CAPITAL & RESERVES			
Retained Earnings / (losses)	[19.i]	57,140,897	78,167,238
Revaluation Reserve	[19.ii]	67,633,650	67,633,650
Capital Reserves	[19.iii]	69,993,064	66,105,064
Deferred Special Grant	[19.iv]	64,054,439	75,511,650
		258,822,050	287,417,602
TOTAL CAPITAL AND RESERVES		258,822,050	287,417,602
LIABILITIES			
Current Liabilities			
Trade & other Payables	[20]	25,789,409	27,062,491
		25,789,409	27,062,491
TOTAL CAPITAL RESERVES & LIABILITIES		284,611,459	314,480,093

The financial statements were approved by the Board of Directors on 20TH day of FEB 2018

and were signed on its behalf by:


Chairman Board of Directors


Managing Director/ Secretary to the Board

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

**SCHOOL EQUIPMENT PRODUCTION UNIT
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE, 2017**

Statement of Changes in Equity

	Retained earnings Kshs	Revaluation Reserves Kshs	Capital Reserves Kshs	Deffered Special Grant Kshs	Total Kshs
Balance as at 01.07.2015	64,582,266	67,633,650	64,161,064	110,853,510	307,230,490
Provision for Corporation tax (Adjusted)					
Government Development Grant	-	-	1,944,000	(35,341,860)	(33,397,860)
Secondary school science kits	-	-	-	-	-
Surplus/(Deficit) for the period	13,584,972	-	-	-	13,584,972
Balance as at 30.06.2016	78,167,238	67,633,650	66,105,064	75,511,650	287,417,602
Balance as at 01.07.2016	78,167,238	67,633,650	66,105,064	75,511,650	287,417,602
Government Development Grant			3,888,000		3,888,000
Deffered Special Grant Utilized				(11,457,211)	(11,457,211)
Surplus/(Deficit) for the period	(21,026,341)	-	-	-	(21,026,341)
Balance as at 30.06.2017	57,140,897	67,633,650	69,993,064	64,054,439	258,822,050

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.

**SCHOOL EQUIPMENT PRODUCTION UNIT
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE, 2017**

Statement of Cash Flows

	Notes	2017 Kshs	2016 Kshs
Profit/loss before taxation		(21,026,341)	13,584,972
Add Depreciation for the year	[14]	1,224,988	1,071,366
Cash flows from operating activities		(19,801,353)	14,656,338
Less: Investment Income		(5,168,327)	(7,780,825)
		(24,969,680)	6,875,513
Changes in Working Capital			
Increase/(Decrease) in operating assets:			
Increase/ Decrease in Receivables & Prepayments		9,685,844	(4,911,828)
Increase/ Decrease in Payables & Accruals		10,534,570	5,862,573
Increase/ (Decrease) in inventory		2,534,215	(4,984,654)
		22,754,629	(4,033,909)
Tax paid			
Net cash flows from operating activities		(2,215,051)	2,481,604
Cash flows from Investing activities			
Purchase of Property plant & Equipment	[14]	(4,513,075)	(5,749,520)
Add: Investment income	[5]	5,168,327	7,780,825
Net Cash Generated from Investing activities		655,252	2,031,305
Cash flows from Financing activities			
Increase/ (Decrease) in Deferred Special Grant Development Grant		(11,457,211)	(35,341,860)
		3,888,000	1,944,000
Net Cash Generated from Financing activities		(7,569,211)	(33,397,860)
Net increase/(decrease) in cash and cash equivalents		(20,936,662)	(28,524,951)
Cash and cash equivalents at 1st July 2016		90,136,737	118,661,688
Cash and cash equivalents at 30 June, 2017	[17 i.]	69,200,075	90,136,737

**SCHOOL EQUIPMENT PRODUCTION UNIT
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE, 2017**

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant accounting Policies

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

Statement of compliance

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

Critical Judgements and Estimates

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

Basis of accounting

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

Revenue recognition

Revenue is recognized to the extent that it is probable that future economic benefits will flow to the company and the revenue can be reliably measured. Revenue is recognized at fair value of consideration received or expected to be received in the ordinary course of the company's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the company's activities as described below;

- i). **Revenue from the sale of goods and services** is recognized in the year in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii). **Grants from National Government** are recognized in the year in which the company actually receives such grants. Grants for development projects are treated as deferred income as per IAS 20.

Currency

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

Accounting period

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

Country of incorporation and registered office

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

Depreciation

Fixed assets are stated at historical cost less accumulated depreciation.

Depreciation is calculated on reducing balance method to write off the cost (carrying values) of each asset to their residual values over their estimated useful lives as follows:

Depreciation rates applicable	
Buildings	2.5%
Motor Vehicles	25%
Computers & Accessories	30%
Machinery & Equipment	15%
Furniture & Fittings	12.5%

Cash and cash equivalents

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

**SCHOOL EQUIPMENT PRODUCTION UNIT
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE, 2017**

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

Other Reserves

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

Inventories

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

Stock consists of stock taking as at 30th June 2017.

Comparatives

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

Financial risk management objectives and policies

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

i.) Credit risk

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

The amount that best represents the company's maximum exposure to credit risk as at 30th June 2017 and 30th June 2016 is as shown below:

	30 June, 2017	30 June, 2016
	Kshs.	Kshs.
Receivables & Prepayments	87,803,929	91,630,056
Cash and cash equivalent	69,200,075	90,136,737

Revenue recognition

Revenue is recognized only when the unit has substantially completed a revenue generation process i.e revenue is recorded when it is earned.

ii.) Liquidity risk

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

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

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

The amount of trade and other payables of the unit as 30th June 2017 and 30th June 2016 are as below:

	30 June, 2017	30 June, 2016
	Kshs.	Kshs.
Trade & Other Payables	19,929,692	27,062,491

iii) Market risk

Market risk is the risk that the value or future cash flows of financial instruments will fluctuate because of changes in market price and comprises three types of risks; currency risk, interest rate risk and other price risk.

iv) Interest rate risk

SEPU's interest rate risk arises from short term bank deposits or investment on call deposit because of changes in market interest rates

v) Currency risk

Currency risk arises on financial instruments that are denominated in foreign currency. SEPU has no trade receivables, nor trade payables, nor borrowings which are denominated in foreign currency as at the reporting date.

**SCHOOL EQUIPMENT PRODUCTION UNIT
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE, 2017**

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

Related Party Disclosures

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

i.) Government of Kenya

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

	30 June, 2017	30 June, 2016
	Kshs	Kshs
Recurrent grant	15,000,000	15,000,000
Development grant	3,888,000	1,944,000
	<u>18,888,000</u>	<u>16,944,000</u>

ii.) Directors Remuneration

Allowance and other expenses	2,594,120	3,494,153
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Contingencies

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

The following are the contingencies which exists within the unit;

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

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

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

ii.) HCCC No. 110 of 2010

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

**SCHOOL EQUIPMENT PRODUCTION UNIT
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE, 2017**

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

	2017	2016
	Kshs	Kshs
[2] Turnover		
Turnover for the year	16,261,006	45,177,377
Less sales Returns	-	(17,350)
Net Turnover	16,261,006	45,160,027
<p>The turn over for the current period went down compared to the previous period. In the previous period, SEPU had a special project from Ministry of Education Science and Technology for production of science kits for secondary schools in all the counties country wide.</p>		
[3] Cost of Sales		
Opening stock	40,451,746	35,467,092
Add-purchases	9,479,623	11,219,364
Less- closing Stock	(37,917,531)	(40,451,746)
	12,013,838	6,234,710
[4] Government Grants		
a Recurrent Grant	15,000,000	15,000,000
b Development Grant	3,888,000	1,944,000
[5] Investment Income		
Interest earned	5,168,327	7,780,825
	5,168,327	7,780,825

**SCHOOL EQUIPMENT PRODUCTION UNIT
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE, 2017**

SCHEDULE OF EXPENDITURE

	2017 Kshs	2016 Kshs
[6] Establishment Expenses		
Repairs & maintenance of Equipment & Building	237,030	867,310
Motor vehicle running expenses & repairs	647,019	336,080
	884,049	1,203,390
[7] Board Expenses		
Sitting Allowance	882,000	1,720,000
Honoraria	672,000	960,000
Lunch & Snacks	271,370	270,278
Transport	132,750	243,875
Tax Expenses (WHT)	636,000	-
Training	-	300,000
	2,594,120	3,494,153
[8] Staff Costs		
Salaries & wages	14,674,242	14,082,506
Staff welfare	2,152,513	1,579,967
Staff uniform	179,773	-
Leave travelling allowance	174,000	146,000
Pension Expenses- employer	502,105	477,605
Staff medical expense	3,600	25,158
Insurance premiums (Medical)	2,594,120	2,036,810
	20,280,353	18,348,046
[9] Operating Expenses		
Telephone & faxes	399,266	239,051
Printing and stationery	407,324	185,376
Insurance premiums (General)	259,102	410,234
Local Travelling & subsistence	546,350	706,238
Subscriptions and Donations	60,000	60,000
Office expenses	1,830,959	2,215,005
Training & recruitment	34,474	404,380
Entertainment Expenses	-	18,000
Electricity & water	303,015	299,593
Iso Training Expenses	88,000	258,122
Secondary school science kit	4,696,746	278,484
IT Expenses	640,675	382,800
Security services	418,215	496,144
	9,684,126	5,953,427

**SCHOOL EQUIPMENT PRODUCTION UNIT
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2017**

SCHEDULE OF EXPENDITURE (CONT.)

	2017 Kshs	2016 Kshs
[10] Other Operating Expenses		
Audit fees	350,000	330,000
Professional & Legal fees	671,059	1,257,606
Depreciation Expense	1,224,988	1,071,366
Increase Provision for bad debts	5,509,717	-
Tax Expenses	1,235,194	8,140,950
	8,990,958	10,799,922
[11] Selling expenses		
Advertising, sales promotion & marketing	1,880,270	1,709,603
Packing materials (Stores Expenses)	30,437	27,583
Transport-Despatch & postage	1,073,940	695,299
	2,984,647	2,432,485
[12] Finance Costs		
Bank charges	23,583	67,615
	23,583	67,615
[13] Corporation Tax		
Profit for the year	(21,026,341)	19,407,103
Tax for the year (30%)	-	(5,822,131)

**SCHOOL EQUIPMENT PRODUCTION UNIT
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2017**

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

[14] PROPERTY, PLANT & EQUIPMENT

	Land	Buildings	Motor vehicles	Computers & Accessories	Machinery & Equipment	Furniture & Fittings	TOTAL
	Kshs.	250%	25%	30%	15%	12.50%	Kshs.
		Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
COST							
Balance as at 01.07.2015	63,000,000	26,366,958	3,321,155	952,053	9,221,336	160,600	103,022,102
Additions	-	4,860,000	-	100,000	-	210,000	5,170,000
Disposal	-	-	-	-	-	-	-
Balance as at 30.06.2016	63,000,000	31,226,958	3,321,155	1,052,053	9,221,336	370,600	108,192,102
DEPRECIATION							
Balance as at 01.07.2015	-	3,000,391	2,506,949	626,528	8,687,673	37,641	14,859,182
Charge for the year	-	653,174	20,552	112,658	80,049	21,933	1,071,366
Balance as at 30.06.2016	-	3,653,565	2,710,501	739,186	8,767,722	59,574	15,930,548
NET BOOK VALUE							
Balance as at 30.06.2016	63,000,000	27,573,393	610,654	312,867	453,614	311,026	92,261,554
Balance as at 30.06.2015	63,000,000	24,259,067	814,206	325,525	533,663	122,959	89,055,420
COST							
Balance as at 01.07.2016	63,000,000	31,226,958	3,321,155	1,052,053	9,221,336	370,600	108,192,102
Additions	-	3,847,575	-	-	307,300	338,200	4,513,075
Balance as at 30.06.2017	63,000,000	35,074,533	3,321,155	1,052,053	9,528,636	728,800	112,705,177
DEPRECIATION							
Balance as at 01.07.2016	-	3,653,565	2,710,501	739,186	8,767,722	59,574	15,930,548
Charge for the year	-	780,674	152,664	93,860	114,137	83,653	1,224,988
Balance as at 30.06.2017	-	4,434,239	2,863,165	833,046	8,881,859	143,227	17,155,536
NET BOOK VALUE							
Balance as at 30.06.2017	63,000,000	30,640,294	457,990	219,007	646,777	585,573	95,549,641
Balance as at 30.06.2016	63,000,000	27,573,393	610,654	312,867	453,614	311,026	92,261,554

Note:

- i) Buildings constructed on land leased to the company from University of Nairobi Kenya Science campus at a peppercorn rental.
- ii) Additions under machinery and equipment represents printer, fume extractor and shredder.
- iii) Additions under furniture represents executive chairs for board room acquired during the financial year.
- iv) Additional building represents new spray and paint workshop completed during the financial year.

**SCHOOL EQUIPMENT PRODUCTION UNIT
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE, 2017**

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

	<u>2017</u> <u>Kshs</u>	<u>2016</u> <u>Kshs</u>
[15] Inventories		
Chemical Stocks	8,804,459	8,594,572
Equipment stock	25,428,640	26,772,906
Work shop stocks	3,684,432	3,162,190
Work in progress	-	1,922,078
	<u>37,917,531</u>	<u>40,451,746</u>
[16] Receivables & Prepayments		
Trade Receivables	30,545,340	29,671,868
Other Current Assets		
Government grant	972,000	5,694,000
Staff Advances	869,440	847,040
	<u>32,386,780</u>	<u>36,212,908</u>
Less Provision for doubtful debts	<u>(25,529,449)</u>	<u>(19,669,732)</u>
	<u>6,857,331</u>	<u>16,543,175</u>
Add Receivable from Ministry of Education	75,086,881	75,086,881
Total Net Debtors	<u>81,944,212</u>	<u>91,630,056</u>
<p>The receivable from Ministry of Education represent the amount of down payment to Vulcan Lab Equipment. After the court ruling, the Kshs. 75,086,881 was transferred to National Treasury and further to Ministry of Education.</p> <p>Government grant under other receivables represents Grant allocation for the unit for the financial period 2016/2017 but was received in July 2017.</p>		
[17] Cash & Bank balances		
Kenya Commercial Bank Limited	4,639,646	5,450,999
National Bank of Kenya Limited	499,888	9,319,156
Cash at Hand	6,102	35,288
	<u>5,145,636</u>	<u>14,805,443</u>
[17 i.] Cash and Cash Equivalents		
Cash and Cash Equivalents consists of cash on hand, cash at bank and Investments.		
Cash in hand and at bank	5,145,636	14,805,443
Investment (Call Deposit) (18)	64,054,439	75,331,294
Cash and Cash Equivalents	<u>69,200,075</u>	<u>90,136,737</u>

SCHOOL EQUIPMENT PRODUCTION UNIT
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE, 2017

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

	2017 Kshs	2016 Kshs
[18] Investment (Call Deposit)		
Co-operative Bank of Kenya Limited	64,054,439	75,331,294
	64,054,439	75,331,294
19 i.) Retained Earnings /(losses)		
Retained Earnings /(losses)	78,167,238	64,582,266
Surplus/ Deficit	(21,026,341)	13,584,972
	57,140,897	78,167,238
ii.) Revaluation Reserve		
Revaluation Reserve on land	63,000,000	63,000,000
Revaluation Reserve on Buildings	4,633,650	4,633,650
	67,633,650	67,633,650
iii.) Capital & Reserves	Kshs	Kshs
Opening balance	66,105,064	64,161,064
Government Development Grant	3,888,000	1,944,000
	69,993,064	66,105,064
The accumulated grants and loans received from/ or through the Kenya Government net of accumulated trading losses prior to incorporation in 1976.		
iv.) Deferred Special Grant		
Opening balance	75,511,650	110,853,510
Development Grant utilized	(11,457,211)	(35,341,860)
	64,054,439	75,511,650
[20] Trade & Other Payables		
Trade Payables	8,767,910	15,797,474
Accrued Audit Fees	350,000	350,000
Retirement benefits (pensions)	816,066	934,866
Provision for Dividend to National Treasury	1,500,000	1,500,000
Start General Contractors	-	486,000
Gratuity for Pension Scheme	1,404,070	1,472,020
M. Korongo & Co. Advocates	500,000	700,000
Provision for Corporate tax	11,681,848	5,822,131
Onyx Construction Co. Ltd	769,515	-
	25,789,409	27,062,491

SCHOOL EQUIPMENT PRODUCTION UNIT
TRIAL BALANCE
FOR THE YEAR ENDED 30TH JUNE 2017

		DEBIT	CREDIT
		(KSHS)	(KSHS)
1	LAND	63,000,000.00	
2	BUILDINGS	30,640,294.00	
3	MACHINERY & EQUIPMENT	646,777.00	
4	MOTOR VEHICLE / CYCLE	457,990.00	
5	COMPUTERS & ACCESSORIES	219,007.00	
6	INVENTORY	37,917,531.00	
7	PURCHASES	9,479,623.00	
8	TRADE DEBTORS	30,545,340.00	
9	STAFF ADVANCE	869,440.00	
10	PREPAID LABORATORY EQUIPMENT	75,086,881.00	
11	INVESTMENT	64,054,439.00	
12	CASH IN HAND	6,102.00	
13	BANK ACCOUNT -NBK	499,888.00	
14	BANK ACCOUNT -KCB	4,639,646.00	
	RECEIVABLE - DEVELOPMENTGRANT	972,000.00	
15	GOVERNMENT GRANT - DEVELOPMENT		3,888,000.00
16	RETAINED PROFIT		57,140,897.00
17	RETIREMENT BENEFITS (PENSIONS)		816,066.00
18	CAPITAL AND OTHER RESERVE		69,993,064.00
19	SPECIAL GRANT		73,385,640.00
20	PROVISION FOR BAD AND DOUBTFUL DEBTS		25,529,449.00
21	REVALUATION RESERVES		67,633,650.00
22	TRADE CREDITORS		8,767,910.00
23	ACCRUED AUDIT FEES		350,000.00
24	SALES		16,261,006.00
25	GRANTS- RECURRENT		15,000,000.00
26	INVESTMENT INCOME		5,168,327.00
27	GRATUITY FOR PENSION SCHEME		1,404,070.00
28	PROVISION FOR DIVIDEND TO N. TREASURY		1,500,000.00
29	M.KORONGO & ADVOCATES		500,000.00
30	ONYX CONSTRUCTION CO. LTD		769,515.00
31	SALARIES	13,802,591.00	
32	WAGES	871,651.00	
33	OFFICE EXPENSES	1,830,959.00	
34	MEDICAL EXPENSES	3,600.00	
35	TELEPHONES & FAXES	399,266.00	



36	SECURITY SERVICES	418,215.00	
37	IT EXPENSES	640,675.00	
38	BANK CHARGES	23,583.00	
39	LOCAL TRAVELLING & SUBSISTENCE ALLOWANCE	546,350.00	
40	MOTOR VEHICLE RUNNING EXPENSES	378,350.00	
41	MOTOR VEHICLE REPAIR & MAINTENANCE	268,669.00	
42	TRANSPORT, DESPATCH & POSTAGE	1,073,940.00	
43	REPAIRS AND MAINTENANCE OF EQUIPMENT & BUILDINGS	237,030.00	
44	PRINTING & STATIONERY	407,324.00	
45	ADVERTISEMENT SALES PROMOTION & MARKETING	1,880,270.00	
46	SUBSCRIPTIONS AND DONATIONS	60,000.00	
47	INSURANCE PREMIUMS (MEDICAL)	2,153,662.00	
48	DIRECTORS EXPENSES	2,594,120.00	
46	DEPRECIATION EXPENSES	1,224,988.00	
47	WATER & ELECTRICITY	303,015.00	
48	TRAINING & RECRUITMENT	34,474.00	
49	STAFF WELFARE	2,152,513.00	
50	PROFESSIONAL & LEGAL FEE	671,059.00	
51	PENSIONS EXPENSES- EMPLOYER	502,105.00	
52	STORES EXPENSES	30,437.00	
53	STAFF UNIFORM	179,773.00	
54	LEAVE TRAVELLING ALLOWANCE	174,000.00	
55	SECONDARY SCHOOL SCIENCE KIT EXP.	4,696,746.00	
56	END OF YEAR PARTY EXPENSES	151,000.00	
57	FURNITURE & FITTINGS	585,573.00	
58	INSURANCE PREMIUMS (GENERAL)	259,102.00	
59	RESTRUCTURING EXPENSES	1,226,250.00	
60	ISO TRAINING EXPENSES	88,000.00	
61	TAX EXPENSES	1,235,194.00	
62	PROVISION FOR CORPORATION TAX		11,681,848.00
	TOTAL	360,139,442.00	360,139,442.00

