

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

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REPORT

OF

THE NATIONAL ASSEMBLY
DATE: 18 APR 2024 Thurs
TABLED BY: Hon Kimani Ichung'ech, MP
Leader, Majority Party
CLERK AT THE TABLE: A. Shibuko

THE AUDITOR-GENERAL

ON

**SCHOOL EQUIPMENT PRODUCTION
UNIT**

**FOR THE YEAR ENDED
30 JUNE, 2023**



04 JAN 2024

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School Equipment
Production Unit



ANNUAL REPORT AND FINANCIAL STATEMENTS

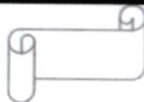
30TH JUNE

2023



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

"Makers of Science Equipment and Teaching Aids"



ABOUT SEPU

SEPU is a state corporation established to design, manufacture, supply, and distribute STEM materials and apparatus for educational institutions.

VISION

A society with Scientific Habits of Mind, Skills and Practices driven by modern Science Equipment

MISSION

To provide quality equipment and materials required in teaching and learning STEM for sustainable development.

TAGLINE

Providers of Quality Science Equipment and Learning Materials.

CORE VALUES

Professionalism, Quality, Innovativeness, Team Spirit, Integrity, Fairness.

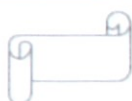
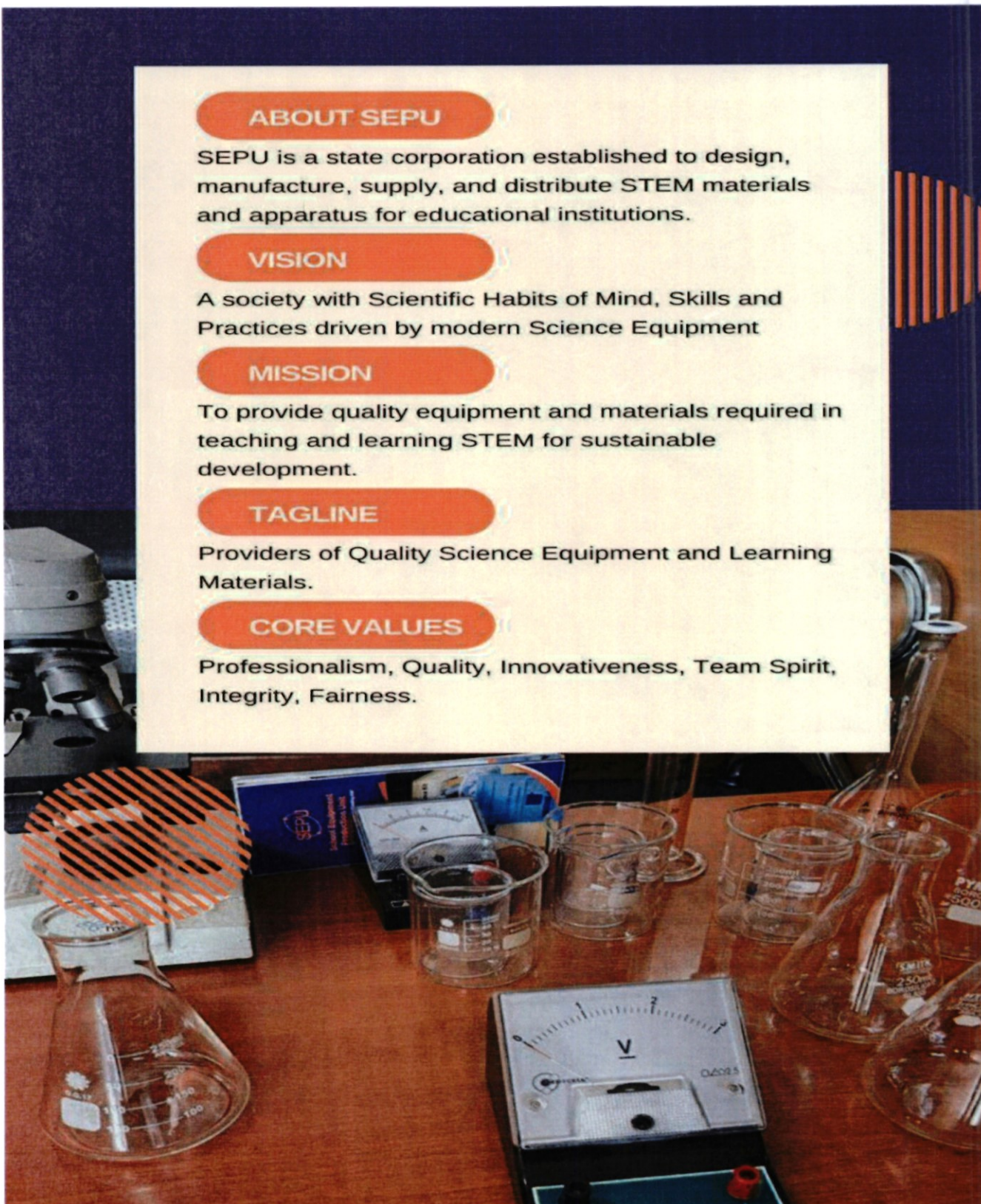


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ACRONYMS, ABBREVIATIONS AND DEFINITION OF TERMS

A: Acronyms and Abbreviations

CEO	Chief Executive Officer
ICPAK	Institute of Certified Public Accountants of Kenya
IFRS	International Financial Reporting Standards
MD	Managing Director
NT	National Treasury
OCOB	Office of the Controller of Budget
OAG	Office of the Auditor General
OSHA	Occupational Safety and Health Act of 2007
PFM	Public Finance Management
PPE	Property Plant & Equipment
PSASB	Public Sector Accounting Standards Board
SAGAs	Semi-Autonomous Government Agencies
SC	State Corporations
SEPU	School Equipment Production Unit
NACOSTI	National Commission for Science, Technology & Innovation
CEMASTEА	Centre for Mathematics, Science and Technology Education in Africa
KICD	Kenya Institute of Curriculum Development
BETA	Bottom -up Economic Transformation Agenda

BOD	Board of Directors
CBC	Competency Based Curriculum
STEM	Science, Technology, Engineering and Mathematics
MIS	Management Information System
CBK	Central Bank of Kenya
ERP	Enterprise resource planning
GAAP	Generally Accepted Accounting Procedures
GDP	Gross Domestic Product
GoK	Government of Kenya
ICT	Information and Communication Technology
KICD	Kenya Institute for Curriculum Development
KEPSHA	Kenya Primary Schools Headteachers Association
KSSHA	Kenya Secondary Schools Heads Association
KEPSA	Kenya Private Schools Association
KNEC	Kenya National Examination Council
MOE	Ministry of Education
NGOs	Non-Governmental Organisations
RBA	Retirement Benefits Authority
SAGA	Semi-Autonomous Government Agency
TVET	Technical and Vocational Education and Training
TOR	Terms of Reference
AWAK	Association of Women Accountants of Kenya
SLIMC	School Learning and Instructional Materials Centre

KEC	Kenya Education Cloud
ESG	Environmental, Social and Governance
CSR	Corporate Social Responsibilities
KRA	Kenya Revenue Authority
VAT	Value Added Tax
IAS	International Accounting Standards
FY	Financial Year
EMCA	Environmental Management Coordination Act

B: Definition of Terms

Fiduciary Management- Members of Management directly entrusted with the responsibility of financial resources of the organization

Comparative Year- Means the prior period.

Contingent Liability- Refers to a liability that may occur depending on the outcome of an uncertain future event. Contingent liabilities are recorded if the contingency is likely and the amount of the liability can be reasonably estimated. The liability may be disclosed in a footnote on the financial statements.

KEY ENTITY INFORMATION

Background information

School Equipment Production Unit is a State Corporation under the Ministry of Education. It was established as a state corporation under the Companies Act (Cap 486) in December 1976. SEPU is mandated to produce scientific equipment and learning materials to learning institutions. Its vision is to be the leading provider of quality science teaching and learning materials in the Region. The main mission of SEPU is to ensure high quality production and distribution of specialized science teaching and learning materials for educational institutions.

The management of the company is governed by the Companies Act of Kenya, the State Corporations Act among other relevant Acts. School Equipment Production Unit has a board of directors which is charged with the overall mandate of the company.

Principal Activities

The principal activity of the company is production and distribution of specialized science teaching and learning materials for educational institutions.

Directors

The Directors who served the company during the financial year were as follows:

Name	Name of Institution	Responsibility
1. Patrick M. Kiliku	Independent	Chairman of the Board
2. Dorcas Kimwetich	Independent	Member
3. Justus Kingirwa Kiunga	Independent	Member
4. Andrew G. Nyakundi	Independent	Member
5. Hassan Sheikh Mohamed	Independent	Member
6. FA CPA Dr.Solomon Ngahu	Rep. PS, National Treasury	Member
7. Lawrence Karuntimi	Rep. PS, State Department for Basic Education, Ministry of Education	Member
8. Prof. Charles Ong'ondo	Rep. Kenya Institute of Curriculum Development	Member
9. Prof. Walter Oyawa	Rep. National Commission for Science, Technology & Innovation	Member
10. Edwin Murimi	Rep. of Inspector General State Corporations	Member
11. Dr. Joel Mabonga	Managing Director/ Chief Executive Officer	Secretary to the Board

Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2023 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Managing Director/ Chief Executive Officer	Dr. Joel Mabonga
2.	Head of Finance	CPA Salome Odek
3.	Production Manager	Mr. Philip Onyango
4.	Head of Sales and Marketing	Mr. Allan Weche
5.	Head of Procurement	Mr. Nicky Ronoh
6.	Head of Internal Audit	Mrs. Nancy Kibogong

Fiduciary Oversight Arrangements

Fiduciary duty requires board members to stay objective, unselfish, responsible, honest, trustworthy, and efficient. Board members, as stewards of public trust, must always act for the good of the organization, rather than for the benefit of themselves.

The Board of Directors are responsible for providing overall leadership through oversight, review and guidance in addition to setting the strategic and policy direction.

The Board has in place three principal committees to ensure effective discharge of its fiduciary responsibility to the Unit as follows;

- Audit and Risk Committee
- Finance, Human Resource & General Purposes Committee
- Technical & Research Committee

KEY ENTITY INFORMATION

Corporate Information

Board of Directors

Chairman Board of Directors
Managing Director/ Secretary to the Board

Registered Office

SEPU Headquarters, University of Nairobi,
Kenya Science Campus,
Ngong Road,
P.O. Box 25140-00603,
Nairobi, Kenya.

Corporate 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.

Our Auditor

The Auditor General,
The Office of Auditor General,
Anniversary Towers
P.O. Box 30084-00100,
Nairobi.

Principal Legal Advisors

The Attorney General
State Law Office and Department of Justice
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

BOARD OF DIRECTORS

1. Dr. Patrick K. Musyoka

Chairman



Dr. Patrick k. Musyoka, year of birth 1970. He holds PhD in Linguistics from University of Dar es Salaam, Tanzania, a Master of Philosophy Degree in Linguistics, a Bachelor's degree in Education from Moi University Eldoret. Training on Data Analysis, EdQual Language and Literacy Project in the University of Bristol. UK. Awarded an Interuniversity Council of East Africa University Academic Staff Mobility Programme at the St. John's University Tanzania as a Senior Lecturer of English, Linguistics and Communication. Received an Award in Interuniversity Council of East Africa nomination for the EAC Interuniversity Council of East Africa University Academic Staff Mobility Programme at the University of Dar es Salaam, Tanzania as a Senior Lecturer of English, Linguistics and Communication.

2. Dorcas Kimwetich

Ms. Dorcas Kimwetich, year of birth 1972. She holds Master's Degree in Strategic Management (University of Nairobi), Degree in Business Administration & Management- (Marketing option and Education) from Day Star University. She Worked in the Petroleum Industry for the past 17 years as a marketer, Astute business lady in hospitality and director of Rorok Victory Academy.



3. Justus Kiunga



Mr. Justus Kiunga, year of birth 1986. He is currently pursuing a Masters of Law at the University of Nairobi. He holds a Bachelor of Laws degree from the University of Nairobi, a Postgraduate Diploma in law from the Kenya School of Law. An advocate of the high court of Kenya. He is also an associate member of the Chartered Institute of Arbitrators - Kenya Chapter.

He is the Managing Partner at Kiunga Kingirwa & Co. Advocates based at Westlands, Nairobi Kenya. The firm's interest is on Education Law, Civil, Commercial, Land and Public Interest Litigation generally. He is an Independent Board Member.

4. Hassan S. Mohamed

Mr. Hassan S. Mohamed, year of birth 1958. He holds a Masters Degree of arts in economic and social studies – development administration Management option from University of Manchester, UK. Post graduate diploma in public administration and management - developing Countries option from Glasgow Caledonian university, UK (then, Glasgow polytechnic), Diploma in range management from Egerton university (then, Egerton college). Awarded the Order of the Grand Warrior of Kenya (OGW) in 2009 by the President of the Republic of Kenya for establishing and replicating Peace Committees.



5. Andrew G. Nyakundi



Mr. Andrew G. Nyakundi, year of birth 1960. He holds Bachelor of Arts (Education) Geography and Economics from Kenyatta University.

Training on Education Management, SMASSE Management Workshop, Workshop on Effective Performance Management by TSC, KESSHA Annual Conferences, ICP International Conference in Auckland (New Zealand), Toronto Canada, ACP International Conference: Kampala-2008, Lesotho Maseru, Kigali Rwanda, Mombasa, Guidance and Counselling Skills, Trauma, Disaster & Conflict Management.

6. FA CPA Dr. Solomon Thuo Ngahu

FA CPA Dr. Solomon Ngahu, year of birth 1977. He holds PhD in Business administration (Finance Option) from JKUAT, a Masters degree (MBA-Finance) from JKUAT, Master of Science Public Finance from University of London, Bachelor degree (B com)-First Class Honors 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, APSEA and KIM professional bodies. He is also a committee member – Public



Policy & Governance of ICPAK, Members Service Committee - ICIFA, Member of Professional Development and Education Committee of APSEA. **Representative Principal Secretary, National Treasury**

7. Prof. Charles Ong'ondo



Prof. Charles Ochieng' Ong'ondo was born in 1964. He holds a PhD in English Language, a Masters Degree in Philosophy . Educational Commonwealth and Technology, a Bachelor's degree in Education Arts (English language/Literature) and a Diploma in Education. Corporate Governance and Board Competency & Audit Training. He is a member of the International Association of Teachers of English as a Foreign Language (IATEFL). Founder member and official – Kenya Association of English Language Educators and Researchers (ASELER). He is an Associate Professor in English Language Teacher Education, Department of Curriculum Instruction and Education Media (CIEM) . Prof. Ong'ondo is currently the Chief Executive Officer/Director, Kenya Institute Curriculum Development (**KICD**).

8. Prof. Walter O. Oyawa

Prof. Walter Odhiambo Oyawa was born in 1965. He holds a PhD in Civil Engineering (Structural Engineering), MSc Civil Engineering (Structural Engineering), and Bachelor Degree in Civil Engineering. Executive Masters of Business Administration (EMBA), at JKUAT, Nairobi, Kenya. Certificate in Corporate Governance course for Directors, by the Centre for Corporate Governance, Nairobi, Kenya. Project Management Certificate of attendance by Institution of Engineers of Kenya (IEK). Financial Management (Budgeting and Procurement) Certificate of attendance by Kenya Institute of Management (KIM). Leadership and Management Capacity Development Training at KIM Certificate of Environmental Impact Assessment and Environmental Audit course, JKUAT, Kenya.



Prof. Oyawa is currently the Chief Executive Officer/Director, National Commission for Science, Technology and Innovation (**NACOSTI**).

9. Mr. Lawrence Karuntimi



Lawrence Kirimi Karuntimi was born in 1967. He holds a Masters Degree of Education in Leadership and Education Management and a Bachelor of Education (Arts). Advanced Project Management – ESAMI, Strategic Leadership Development Programme, Senior Management Course for Public Servants, QMS Internal Auditor: Quality Management Systems, Training on Performance Management, Training on Education Management Information System (EMIS), Induction for Quality Assurance and Standards Officers, Certificate in School Management, Certificate of Proficiency in Computer Operation and Various other Seminars and Training. He is currently the Deputy

Director of Education, Directorate of Secondary Education.

Representative Principal Secretary,

State Department for Basic Education

10. Dr. Joel Mabonga

Chief Executive Officer/ Secretary to the Board

Dr. Joel Mabonga was born in 1966. He holds a Doctor of Philosophy in Management of Education change from Kenyatta University, a Master of Philosophy Educational Administration from Moi University and a Bachelor's degree in Education from Kenyatta University, besides other corporate governance courses. He has served the nation in various capacities including Chief Executive Officer (CEO), Independent Police Oversight Authority (IPOA), Senior Deputy Director, Corporate Services, Kenya Institute of Curriculum Development, Director-Voter Education and partnership at the Independent Electoral and Boundaries Commission (IEBC), Chief Manager at the Kenya Institute of Management (KIM) and a lecturer at Kenyatta University. His exemplary performance saw him win the prestigious 2017 Ombudsman award for effective Public Service Delivery while serving as Chief Executive Officer (CEO), IPOA. Dr. Mabonga has attended several Managerial and Leadership courses Nationally and Internationally.



Dr. Mabonga is currently the Chief Executive Officer/ Director SEPU

MANAGEMENT TEAM

1. Dr. Joel Mabonga

Chief Executive Officer/ Secretary to the Board



Dr. Joel Mabonga was born in 1966. He holds a Doctor of Philosophy in Management of Education change from Kenyatta University, a Master of Philosophy Educational Administration from Moi University and a Bachelor's degree in Education from Kenyatta University, besides other corporate governance courses. He has served the nation in various capacities including Chief Executive Officer (CEO), Independent Police Oversight Authority (IPOA), Senior Deputy Director, Corporate Services, Kenya Institute of Curriculum Development, Director-Voter Education and partnership at the Independent Electoral and Boundaries Commission (IEBC), Chief Manager at the Kenya Institute of Management (KIM) and a lecturer at Kenyatta University. His exemplary performance saw him win the prestigious 2017 Ombudsman award for effective Public Service Delivery while serving as Chief Executive Officer (CEO), IPOA. Dr. Mabonga has attended several Managerial and Leadership courses Nationally and Internationally.

Dr. Mabonga is currently the Chief Executive Officer/ Director SEPU

2. CPA Salome Odek

Head of Finance & Accounts

Salome A. Odek was born in 1982. She is currently pursuing a Masters Degree of Business Administration (MBA-Finance) at the University of Nairobi. Holds a Degree in Bachelor of Commerce Finance Option from Kenyatta University and Certified Public Accountants (CPA) K. She is a registered member of ICPAK. She served as Ag. Chief Executive Officer (CEO), SEPU from 9th February 2022 to 26th July, 2022. CPA Salome has undertaken Training on Public Financial Management Reforms by ESAAG (*Entebbe, Uganda*). Training on Enhancing the Effectiveness of Public Financial Management Systems by ESAAG (*Livingstone, Zambia*). Training on Rethinking Public Financial Management by ESAAG (*Namibia*)
She is a member of AWAK (Association of Women Accountants of Kenya)



3. Mr. Philip Onyango

Principal Production Manager



Mr. Philip Onyango, year of birth 1976. He is currently pursuing a Degree in Bachelor of Technology (Mechanical Engineering Technology) from Technical University of Kenya. He has a Diploma in Mechanical Engineering (Production Option) from Jomo Kenyatta University of Agriculture and Technology.

4. Mr. Allan Weche

Sales and Marketing Manager

Mr. Allan Weche, year of birth 1982. He holds a Bachelor of Commerce (Marketing Option) from Mount Kenya University and an Advanced Diploma in Sales Management and Marketing from Institute of Commercial Management (UK).



5. Mr. Nicky Ronoh

Procurement Officer



Mr. Nicky Cheruiyot Ronoh, year of birth 1985. He has a Degree in Bachelor of Business Management from Moi University and a Diploma in Business Administration from Institute of Commercial Management.

6. Mrs. Nancy Jepkemboi

Kibogong Internal Auditor

Mrs. Nancy Jepkemboi Kibogong, year of birth 1988. She holds a Degree in Bachelor of commerce (accounting option) from Egerton University and CPA part I. Currently pursuing CPA part II. She has worked in the banking sector before, particularly Family Bank Limited for five years. Prior to joining SEPU, she was working at Kenya Film Classification Board as an Internal Auditor.



CHAIRMAN'S STATEMENT

Introduction

On behalf of the SEPU Board of Directors, I am honored to present to you the Annual Report and Financial Statements of School Equipment Production Unit (SEPU) for the Financial Year ended 30 June, 2023.

The sales revenue has increased by 15.11% as the market continued with its subdued performance due to less orders received from schools. The Unit was privileged to receive recurrent grants which boosted the Gross income. In line with our Corporate Strategic Plan, the year under review saw us focus on activities aimed at advancing the organization for the realization of our Vision. As the leading provider of quality science teaching and learning materials in the region, we focus on promoting the abilities and potential of learners by designing and producing the materials that promote STEM & CBC curriculum for learners.

Brief highlight of the key activities during the year

During the year under review, there were reduced marketing activities due to moderated school calendar especially on partnerships with Kenya Secondary Schools Heads Association, Kenya Primary Schools Heads Association and Kenya Private Schools Association in which the Unit gets an opportunity to conduct marketing activities even though this did not materialize.

The net profit during the current financial year 2022/2023 is Kshs. 16,613,788 compared to net profit of Kshs. 55,828,219 in 2021/2022 representing a decrease in profit by 100%. Gross Income decreased from Kshs. 146,479,679 to Kshs. 115,706,134 in 2021/2022 representing a decrease in Gross Income by 100%.

The Unit implements its draft strategic plan covering the period 2019-2024. This plan determines and guides on the long-term performance of the Unit. The 'BETA' agenda especially manufacturing takes a center stage in the strategic plan as the Unit plays a big role in ensuring 100% transition in secondary schools through manufacturing of educational scientific equipment to schools which will accelerate attainment of Vision 2030.

Successes consolidated

Despite the challenges experienced by the Unit, it continues to focus on a comprehensive agenda to build a sustainable business as a recovery strategy. The Unit has been committed to design, manufacture and distribute high quality science teaching and learning materials for learning institutions. The Unit has developed the Human Resources Instruments and Career Progression Guidelines which are yet to be approved by the relevant Authorities. The staff morale has been relatively high due to motivation through salary increment and promotions. The Unit intends to implement strategies that will continue to raise the staff morale.

Challenges

The Unit is faced by a few challenges which have the potential to impede timely realization of its strategic goals. Some of these challenges include inadequate space for expansion and lack of modern machines in the Production Department. There has been inadequate funding but the Government is reconsidering funding the Unit to meet the Unit's optimal production level.

Future outlook of the organization

The outlook for 2024 is favorable with the economic growth targeted at 42% and with the 'Bottom – Up Economic Transformation Agenda' the Unit will position itself as a driver of the manufacturing agenda. The Unit intends to manufacture science equipment and materials for both Primary and Secondary schools to meet the demand of the 100% transition and Competency Based Curriculum, Procure and Distribute textbooks, Training of Publishers, Procurement of digital resources hosted in Kenya Education Cloud (KEC), Formulation of Guidelines on textbooks and support materials.

The Unit will support value addition and raise the manufacturing sector share of GDP. We envisage conducive operating environment by upgrading the contents of science kit to support the Competency Based Curriculum to meet its requirement. The Unit will continue with implementation of the Strategic Plan 2019-2024, Quality Management System and Performance Contracts based on sound leadership, prudent financial management, innovation, creativity and team spirit. Towards enhancing the institutional Human Resource capital, the Unit will conduct capacity building for employees within their area of specialization.

The CBC curriculum presents huge opportunities for the Unit especially the design and manufacture of STEM (Science Technology Engineering and Mathematics) materials for both early years, Junior Secondary school and Senior Secondary School.

The Unit will change its name to SLIMC (School Learning and Instructional Materials Centre). This is as a result of a recommendation by Presidential Working Party on Education Reforms led by Prof. Munavu which adds to SEPU's Mandate the following;

- Training of Publishers
- Procurement of Digital resources hosted in Kenya Education Cloud (KEC).
- Procurement and Distribution of Text books and other learning support materials.
- Formulation of Guidelines on Textbooks and support materials.

Appreciation

The Unit appreciates the great financial support provided by the Government of Kenya, through Ministry of Education, State Department of Basic Education, the Board of Directors for providing Strategic direction and leadership, the management team and entire staff for their commitment to work as well as our Stakeholders, Business Partners and Clients for the business growth. Going forward, the Board is committed to continue sourcing for resources to ensure the Unit achieves its targets over the next financial year in line with its strategic plan.



Chairman Board of Directors

REPORT OF THE MANAGING DIRECTOR

Introduction

The year under review indicates that the School Equipment Production Unit (SEPU) has maintained a strong drive for result across all its departments. During the year under review, the Unit finalized its current strategic plan and the strategies developed are being implemented that will yield positive results which will increase the revenue over the next few years.

In recognition of the critical role played by motivated staff, we continue to invest in human capital development and improvement of the terms and conditions for employees. This will help us to attract and retain highly performing human capital.

Business Review

The Unit continues to grow its product portfolio in different segments through partnership with the Centre for Mathematics, Science & Technology of Education in Africa (CEMASTEA) and Technical and Vocational Education and Training (TVET) to support the teaching of Science, Technology, Engineering, and Mathematics (STEM) subjects and Competency Based Curriculum (CBC). This partnership will ensure improvement in the production, modification and marketing of its science equipment and materials through workshops and seminars for teachers. This will also be extended to other regions. Being a Government Agency, which manufactures and supplies science equipment, SEPU has had major achievements in the era of devolution as it has marketed its products through the County Governments and National Government.

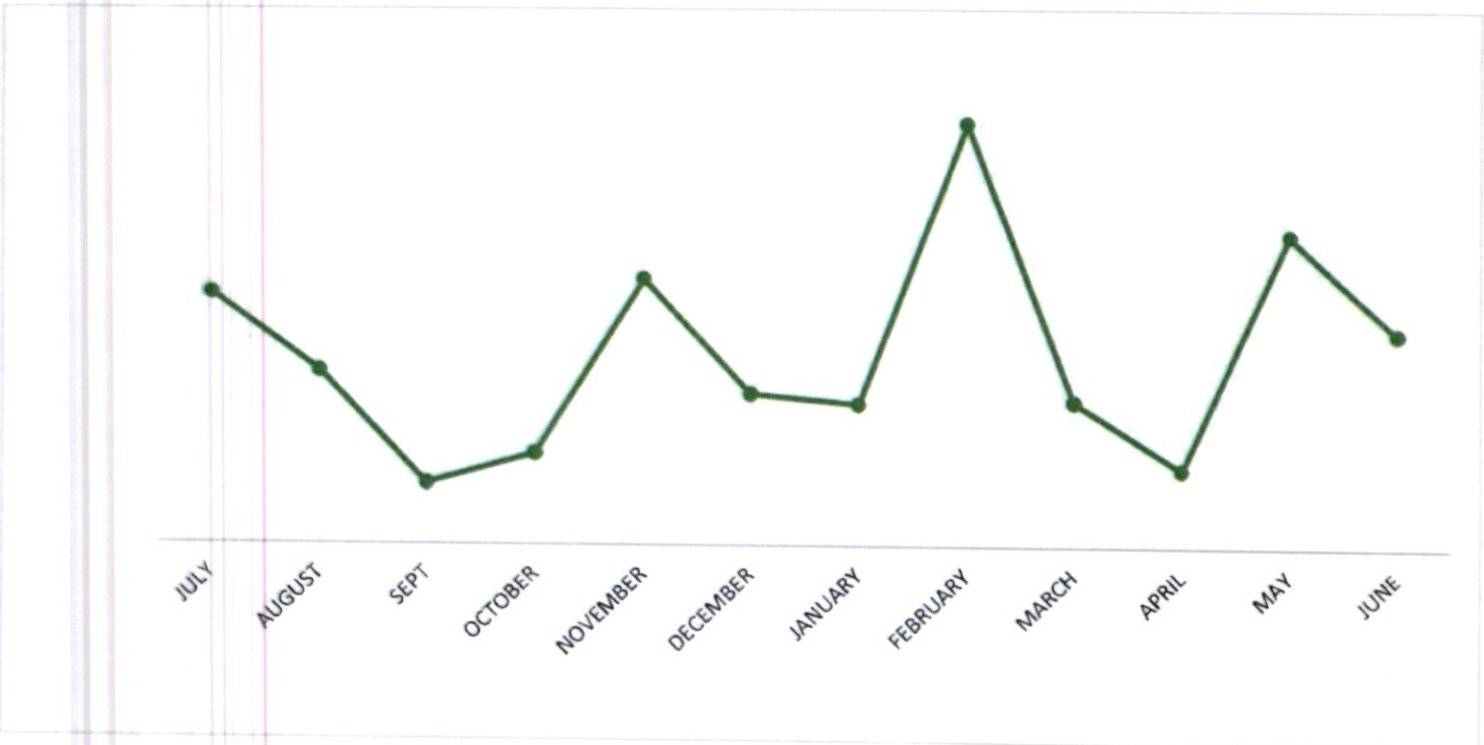
The Unit has continued to implement the Government policy toward 30% orders to the Youth, Women and Persons with Disability.

Performance Review

The Unit registered a profit of Kshs 16,613,788 in the financial year 2022/2023 compared to a profit of Kshs. 55,828,219 in 2021/2022. In order to improve on the performance of the Unit, various strategies will be implemented such as comprehensive advertising through different platforms/media and recruiting mainly proactive sales people from different Counties who will work on commission basis. Stakeholder engagements and Publicity of the Unit through participation in School activities, for example sponsoring of articles in Kenya Music Festival.

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.

Overview Performance at a glance



Performance Contract and Approved Budgets

SEPU entered into a negotiated performance contract for 2022/2023 with the Government of Kenya by setting targets in line with Strategic Plan 2023-2027, second Medium Term 2019-2024 and the approved budgets for the financial year 2022/2023.

Strategies for improving revenue and service delivery:

- 1) The Unit will uphold its Vision by ensuring that it becomes a leader in providing and supplying quality science teaching and learning materials in the region.
- 2) Finding new customers; the management has ensured that sales promotion and marketing of SEPU products to public schools, private schools and non-profit making organizations among others is done to enhance increase in revenue.
- 3) Reviewing current pricing structure; the Unit is in the process of reviewing the correct prices and costing of products and services accordingly.
- 4) Enhancing Inventory Management; the management is currently engaged in streamlining the business through control of inventory to improve cash flow, avoid money tied in slow- moving Inventory and to avoid losses that might arise as a result of expired or obsolete stock.

Appreciation

The Unit acknowledges the support provided by the Government of Kenya, through the Ministry of Education, State Department of Early Learning and Basic Education by providing us with grants which have made the Unit to continue improving on its operations. We appreciate the Board of Directors for providing Strategic direction and leadership and finally the Management and all staff for working tirelessly to be where we are as well as our Stakeholders and Business Partners including our clients for the business growth. Going forward, the Management is committed to continue with marketing of SEPU products to ensure the Unit achieves its targets over the next financial year in line with its strategic plan.



Managing Director

CORPORATE GOVERNANCE STATEMENT



The 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 Directors are 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 knowledge and experience to perform its duties effectively. The areas of expertise of the Directors are as follows:

Name	Name of Institution	Responsibility
1. Patrick M. Kiliku	Independent	Chairman of the Board
2. Dorcas Kimwetich	Independent	Member
3. Justus Kingirwa Kiunga	Independent	Member
4. Andrew G. Nyakundi	Independent	Member
5. Hassan Sheikh Mohamed	Independent	Member
6. FA CPA Dr.Solomon Ngahu	Rep. PS, National Treasury	Member
7. Lawrence Karuntimi	Rep. PS, Ministry of Education, Early Learning & Basic Education	Member
8. Prof. Charles Ong'ondo	Rep. Kenya Institute of Curriculum Development	Member
9. Prof. Walter Oyawa	Rep. National Commission for Science, Technology & Innovation	Member
10. Edwin Murimi	Rep. of Inspector General State Corporations	Member
11. Dr. Joel Mabonga	Managing Director/ Chief Executive Officer	Secretary to the Board

The Board continues to offer oversight and review matters related to their duties including the Unit's strategy, financial performance, corporate governance, ensuring 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 nine (9) members: The Chairman, Independent members, Representative of Principal Secretary, Ministry of Education, National Treasury, Director General National Commission for Science and Technology Innovation, Chief Executive Officer (KICD) and Managing Director as per the Company Act Cap 486 of 1976 that established SEPU.

The role of Chairman and Managing Director.

The separate roles of the Chairman/ Chairperson and Chief Executive Officer are clearly defined in the Board Charter as well as 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 Annual Board Evaluation has been conducted. The purpose of Annual Evaluation is to assess its effectiveness in discharging its mandate. The process entails a self- evaluation for each Director, the Chairperson to the Board on overall Board interactions and conduct of business, meetings and evaluation of Managing Director.

Board Committee

The Board has in place three principal committees to ensure effective discharge of its duties. These operate within well-defined terms of reference which are reviewed regularly to ensure compliance with requirements as well as relevance to business strategy. The committees report to the Full Board on all duties assigned. During the period under review, the committees in place included the Board Audit Committee, Technical & Research Committee & Board Finance, Human Resource & General Purposes Committee as follows;

Board Audit Committee Members

Hassan Sheikh Mohamed	-	Chairperson
FA CPA Dr.Solomon Ngahu	-	Member
Prof. Walter Oyawa	-	Member
Andrew G. Nyakundi	-	Member
Edwin Murimi	-	Rep. of Inspector General State Corporations

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 Board Audit Committee.

Attendance

Number of meetings held during 2022/2023

Name	Position	No. of meetings held.
Hassan Sheikh Mohamed	Chairperson	3 out of 3
FA CPA Dr. Solomon Ngahu	Member	3 out of 3
Prof. Walter Oyawa	Member	1 out of 3
Andrew G. Nyakundi	Member	3 out of 3

Board Finance, Human Resource & General Purposes Committee Members

Dorcas Kimwetich	-	Chairperson
FA CPA Dr.Solomon Ngahu	-	Member
Justus Kingirwa Kiunga	-	Member
Lawrence Karuntimi	-	Member
Dr. Joel Mabonga	-	Managing Director/ CEO
Edwin Murimi	-	Rep. of Inspector General State Corporations

Role and functions Finance and General Purposes Committee

The Finance and General Purposes 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.

Role and functions of Human Resource Committee

- i. Ensure effective Human Resource policies and strategies that support the Unit's Values, Vision, Mission and aspirations.
- ii. 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.
- iii. Ensure the review of the position description of the Managing Director and the Board Chair's performance against corporate and personal objectives.

- iv. 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.
- v. 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.
- vi. 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.
- vii. 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.
- viii. Handle disciplinary cases.
- ix. Review terms of services for staff.
 - x. Review and recommend changes in remuneration for Delegates and Directors.
 - xi. Carry out Recruitment and Selection.

Attendance

Number of meetings held during 2022/2023

Name	Position	No. of meetings held.
Dorcas Kimwetich	Chairperson	4 out of 4
Lawrence Karuntimi	Member	2 out of 4
FA CPA Dr.Solomon Ngahu	Member	3 out of 4
Justus Kingirwa Kiunga	Member	4 out of 4
Dr. Joel Mabonga	Managing Director/ CEO	4 out of 4

Board Technical & Research Committee Members

Andrew G. Nyakundi	-	Chairperson
Prof. Charles Ong'ondo	-	Member
Prof. Walter Oyawa	-	Member
Lawrence Karuntimi	-	Member
Dr. Joel Mabonga	-	Managing Director/ CEO
Edwin Murimi	-	Rep. of Inspector General State Corporations

Role and function

The Board Technical & Research Committee is responsible for Improvements in Production level using modern technology and machinery for sustainability, Research on how the Unit can be involved in the ongoing CBC Education Review and TVET, Research on market expansion for SEPU products.

Upgrading of Science kits and aligning them to CBC curriculum (Grade 1-6 and Junior Secondary), proposals to expand production workshops, dealing with issues of reclaiming the Organization's allocated land.

Research on promotion of corporate reputation among others.

Attendance

Number of meetings held during 2022/2023

Name	Position	No. of meetings held.
Andrew G. Nyakundi	Chairperson	3 out of 3
Prof. Charles Ong'ondo	Member	1 out of 3
Prof. Walter Oyawa	Member	1 out of 3
Lawrence Karuntimi	Member	3 out of 3
Dr. Joel Mabonga	Managing Director/ CEO	3 out of 3

Full Board

Attendance

Number of meetings held during 2022/2023

Name	Position	No. of meetings held.
Patrick M. Kiliku	Chairperson	6 out of 6
Dorcas Kimwetich	Member	6 out of 6
Lawrence Karuntimi	Member	5 out of 6
FA CPA Dr.Solomon Ngahu	Member	4 out of 6
Justus Kingirwa Kiunga	Member	6 out of 6
Prof. Charles Ong'ondo	Member	4 out of 6
Prof. Walter Oyawa	Member	4 out of 6
Andrew G. Nyakundi	Member	6 out of 6
Hassan Sheikh Mohamed	Member	6 out of 6
Edwin Murimi	Member Rep. of Inspector General State Corporations	6 out of 6
Dr. Joel Mabonga	Managing Director/ CEO	6 out of 6

Special Meeting Attendance

Number of meetings held during 2022/2023

Name	Position	No. of meetings held.
Patrick M. Kiliku	Chairperson	7
Dorcas Kimwetich	Member	2
Andrew G. Nyakundi	Member	3
Hassan Sheikh Mohamed	Member	2

NOTE: There were special board meetings that were attended by some board members to address issues that needed immediate attention and discussions as follows;

Signing of Performance contract, Visitation of encroached SEPU land, Engagement meetings with the Parent Ministry on matters affecting the organization.

ENVIRONMENTAL SUSTAINABILITY REPORTING/ CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Unit emphasizes on promoting positive social and environmental change on the community where it operates to uplift the standard of living. It is also committed to social, economic and environmental sustainability.

Sustainability strategy and profile

The Unit focuses its sustainability efforts on addressing environmental, social and governance (ESG) issues, including implementing strong environmental stewardship, putting stakeholders at the center of everything we do and achieving results the right way. The Unit took pride in partnering with schools who are passionate about protecting the planet.

The Unit undertook Corporate Social Responsibilities which also gives the Unit a business competitive edge as follows;

SEPU team planted 300 (three) hundred trees on 31st May, 2023 at Nabeel Integrated School in Tala, Machakos County.



1. Environmental Performance

SEPU pursue innovations that improve environmental performance across the production operations. This commitment to sustainability is built into the way we manage our work. Our Operational Excellence Management System establishes standards and objectives that extend from the organization level to the stakeholders, allowing our businesses to focus on the localized risks and potential environmental issues at specific operating locations. We also ensure that our employees benefit from healthier and safer working conditions.

2. Employee Welfare

The Human Resources Policy and Procedures Manual is a set of guidelines designed to assist all SEPU staff undertake their operational responsibilities without impediment or conflict as follows; -

- Policies and Procedures for Attendance
- Employee Conduct
- Use of Company Property
- Harassment and Discrimination
- Health and Safety
- Communication and expenses among others.

SEPU is guided by the Occupational Safety and Health Act (2007). The Unit's goal in Occupational Safety and Health is to proactively take preventive measures to assure employees and other stakeholders of a safe and good working environment, free of accidents injuries and ill- health.

3. Market Place Practices

(a) Responsible Competition Practices

SEPU ensures expertise in all the fields when dealing with learning institutions.

The Unit has qualified personnel in the three-science subjects, who ensures that the right equipment and materials are produced and supplied to schools. Quality products are distributed to schools when required. The procurement department follows the procurement procedures and regulations during the sourcing of raw materials and finished products, and those goods are purchased at fair prices for SEPU, in case of any complaints from clients, it is recorded in a register and action is taken by the relevant officer who ensures that the client is satisfied with the action taken on his or her complain. A good relationship and communication is maintained between SEPU and her competitors and trust is ensured.

(b) Responsible Supply Chain and supplier relations.

As a Unit, we endeavor to deliver high quality products and services to our customers, and who share our commitment to business conduct that not only complies with all applicable laws and regulations governing their learning activities, but which also conforms to high ethical standards and accountability for quality, reliability, health, safety and the environment.

The discipline of supplier relationship management is observed by the Unit to help procurement officers identify critical partners, take strategic approaches to purchasing, insulate their supply chains from risk, and increase profitability.

(c) Responsible Marketing and Advertisement

SEPU markets and advertises its products through various forums. For instance, through Education magazines, face to face visits to schools, distribution of brochures with pictures of products and services offered, attending annual conferences i.e Kenya Secondary Schools Heads Association, Kenya Primary Schools Heads Association and Kenya Private Schools Association in which the Unit gets opportunity to do presentations of its product range and services and sensitize the practicing teachers on the latest products in the market recommended to be used in schools.

(d) Product Stewardship

SEPU ensures an approach to managing the environmental impacts of different scientific products and materials and at different stages in their production, use and disposal. The Unit sees to it that those involved in producing and selling of products have a shared responsibility to ensure that those products or materials are managed in a way that reduces their impact, throughout their lifecycle, on the environment and on human health and safety. This approach focuses on the product itself, and everyone involved in the lifespan of the product is called upon to take up responsibility to reduce its environmental, health, and safety impacts.

4. Community Engagements

Our commitment to stakeholders is to improve quality of learning in schools as they are central to our corporate identity. The Unit always endeavor to have a positive impact on society through improving the way teaching is done and especially application of learning and teaching aid in STEM related subjects.

Our CSR programme focuses on education as a key enabler of society transformation.

During financial year 2022/2023, the Unit supported needy schools through partnerships with education stakeholders as indicated below;

Donation of assorted Science Apparatus, Chemicals and Equipment to the Commissioner General Brigadier (Rtd.) John K. Warioba at prisons Headquarters (Magereza Building) Nairobi County.



- i.) With 100% transition from Primary to Secondary Schools CSR for communities is key to enable access to quality education by adopting CSR.
- ii.) The Unit has maintained a clean environment by establishing a committee that ensures waste is properly disposed off to enable the environment around to be clean, secure, and sustainable as per the Environmental Management Coordination Act (EMCA).

REPORT OF THE BOARD OF DIRECTORS

The Directors submit their report together with the audited financial statements for the Year ended 30th June 2023 which disclose the state of affairs of the Company.

Principal activities

The principal activities of the company are Designing, Producing and Selling science educational equipment and Chemicals.

Results

The results of the company are shown on page 1

The Company's Article of Association prohibits payment of dividend

Reserves

The Board of Directors proposes to carry forward the balance of the retained profit amounting to Kshs. 67,606,199

Auditors

The Auditor General is responsible for the statutory audit of the Unit in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

Directors

The Directors who served the company during the year were as follows:

Name	Name of Institution	Responsibility
1.Patrick M. Kiliku	Independent	Chairman of the Board
2.Dorcas Kimwetich	Independent	Member
3.Justus Kingirwa Kiunga	Independent	Member
4.Andrew G. Nyakundi	Independent	Member
5.Hassan Sheikh Mohamed	Independent	Member
6.FA CPA Dr.Solomon Ngahu	Rep. PS, National Treasury	Member
7.Lawrence Karuntimi	Rep. PS, Ministry of Education, Early Learning & Basic Education	Member
8.Prof. Charles Ong'ondo	Rep. Kenya Institute of Curriculum Development	Member
9.Prof. Walter Oyawa	Rep. National Commission for Science, Technology & Innovation	Member
10.Edwin Murimi	Rep. of Inspector General State Corporations	Member
11.Dr. Joel Mabonga	Managing Director/ Chief Executive Officer	Secretary to the Board

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.

Approval of the financial statements

The financial statements were approved by the Board of directors on 21/12/2023 and signed on its behalf by:

A blue ink signature, appearing to be 'M. J. ...', is written over a horizontal line.

Chairman Board of Directors

A blue ink signature, appearing to be 'S. ...', is written over a horizontal line.

Managing Director/ Secretary to the Board

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



Enhancing Accountability

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON SCHOOL EQUIPMENT PRODUCTION UNIT FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on the Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of School Equipment Production Unit set out on pages 1 to 23, which comprise the statement of financial position as at 30 June, 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of

Report of the Auditor-General on School Equipment Production Unit for the year ended 30 June, 2023

budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the School Equipment Production Unit as at 30 June, 2023, and 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, and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Encroachment on the Unit's Land

As previously reported, the statement of financial position reflects property, plant and equipment balance of Kshs.110,305,296 as disclosed in Note 13 to the financial statements. Included in the balance is land parcel with historical cost of Kshs.63,000,000 situated at Industrial Area, Nairobi allocated to the Unit in 1996. However, the land parcel is yet to be developed due to encroachment by informal settlers. Management has however sought assistance from the National Land Commission in order to develop the land. No response has been provided to indicate the progress made in reclaiming the land parcel by the end of the year.

In the circumstances, ownership and fair statement of the property, plant and equipment balance of Kshs.110,305,296 could not be confirmed.

2. Unsupported Long Outstanding Trade Receivables

As previously reported and as disclosed in Note 15 to the financial statements, the statement of financial position reflects receivables and prepayments net balance of Kshs.102,804,148 which includes trade receivables amounting to Kshs.28,531,621, out of which of Kshs.27,971,058 or 94% has been outstanding for more than ten (10) years. However, no supporting documents were provided for audit review. Further, as disclosed in the same Note, the trade receivables balance includes Kshs.75,086,881 due from the Ministry of Education, State Department for Early Learning and Basic Education and has been outstanding since the financial year 2018/2019 but is not reflected as a pending bill in the State Department's financial statements for the year ended 30 June, 2023.

Further, the trade receivables balance includes staff advances balance of Kshs.1,207,650, out of which an amount of Kshs.840,484 or 70% relates to staff advances due from employees who have since left the service or are deceased.

Note 15 to the financial statements also discloses reduction in provision for bad and doubtful debts from Kshs.30,413,424 in the prior year to Kshs.2,022,004 which represents a decrease of Kshs.28,391,420. However, the write back of the provisions of Kshs.28,391,420 was not recognized in the statement of changes in net equity or supported. No explanation was provided for the material adjustment of the provisions for bad and doubtful debt.

Management has further, indicated that a fire broke out at the Company's Headquarters in 2007 and destroyed supporting schedules relating to receivables. As a result, recovery of debtors is unlikely as it has been affected by lack of evidence.

In the circumstances, the accuracy and full recovery of the receivables and prepayments balance of Kshs.102,804,148 could not be confirmed.

3. Unsupported Long Outstanding Trade and Other Payables

As previously reported, the statement of financial position reflects trade and other payables balance of Kshs.16,809,140 as disclosed in Note 22 to the financial statements. The balance includes trade payables balance of Kshs.11,187,790, out of which a balance of Kshs.7,209,566 or 64% has been outstanding for between fifteen (15) and twenty-seven (27) years and whose supporting documents were not provided for audit. Management indicated that a fire broke out in the Company's Headquarters in 2007 and destroyed supporting schedules relating to the accounts payable. Management had also placed advertisement in the daily newspapers in November, 2016 to inform relevant creditors to present documents supporting the services offered to the Company but with little success.

Further, the balance includes accrued retirement benefits (pensions), provision for dividend to The National Treasury, gratuity for pension scheme, provision for corporate tax and M. Korongo & Advocates of Kshs.816,066, Kshs.1,500,000, Kshs.1,404,070 and Kshs.70,711 respectively but there have been no movement over the last twenty-four (24) months.

In the circumstances, the accuracy, and fair statement of the trade and other payables balance of Kshs.16,809,140 could not be confirmed.

4. Deferred Special Grant

As previously reported, the statement of financial position reflects deferred special grant balance of Kshs.44,167,394 as disclosed in Note 21 to the financial statements which has been in the books for over three (3) years. Management has not explained why the grant has remained deferred for over a long time.

In the circumstances, the accuracy, presentation and disclosure of the deferred special grant balance of Kshs.44,167,394 could not be confirmed.

5. Expired Inventories

The statement of financial position reflects inventories balances of Kshs.30,959,810 as disclosed in Note 14 to the financial statements which includes chemical inventories worth Kshs.1,103,488. However, included in Kshs.1,103,488 is chemical inventories balance of Kshs.50,625 which had expired but not written off.

In the circumstances, the accuracy and completeness of inventories balance of Kshs.30,959,810 could not be confirmed.

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the School Equipment Production Unit Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other

ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management had not resolved the issues or given any explanation for failure to implement the recommendations.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Unsurrendered Excess Receipts

The statement of comparison of budget and actual amounts reflects actual sale of goods and budget amounts of Kshs.36,011,721 and Kshs.35,000,000 respectively, resulting to excess revenue amounting to Kshs.1,011,721 and which was not surrendered to The National Treasury. This was contrary to Regulations 117(1)(2) of the Public Finance Management (National Government) Regulations, 2015 which requires the Accounting Officer to surrender unutilized resources to The National Treasury and The National Treasury shall ensure that the funds are re-voted for the project in the following financial year in order to continue the implementation of the project.

In the circumstances, Management was in breach of the law.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that

govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Poor Inventory Controls and Stores Management

As reported in the previous year, the statement of financial position reflects a balance of Kshs.30,959,210 in respect of inventories as disclosed in Note 14 to the financial statements. However, review of the inventories management controls in place revealed the following weaknesses;

- i. Lack of ledger or bin cards as well as reconciliation of stocks to ascertain stock movement.
- ii. No policy on management of stock levels such as re-order levels to prevent wastage, losses, stock outs and unprofitable lock-up of funds.
- iii. No segregation of duties in main stores whereby the officer receiving either finished or raw materials is the same officer issuing or dispatching.

In the circumstances, the existence of an effective inventory management internal control system to safeguard losses, wastage, and theft of stocks could not be confirmed.

2. Lack of an Automated Accounting System

As previously reported, the Unit did not have either an automated accounting system, an ICT Committee or an ICT Policy. This might lead to loss of revenue due to lack of a proper accounting system and lack of accountability of funds since there is no electronic trail of expenditure. This was contrary to Section 4 (4.4) of the National ICT Policy Guidelines, 2020 on public service delivery which states that 'the ICT Policy requires all arms of the Government to build, deploy, operate and manage locally built back-end and front-end systems to deliver services'.

In the circumstances, the effectiveness of internal controls systems and risk management of the Unit's accounting system could not be confirmed.

3. Lack of an IT Strategic Committee and an IT Steering Committee

The Unit did not have an IT strategic committee and an IT steering committee in place, contrary to Section 6.2 of the IT Governance Standard by ICT Authority on ICT

Governance. The absence of a strategic committee may lead to deficiency in planning, controls and oversight on IT spending and allocation of costs while the absence of an IT steering committee means the needs of the IT department may not be addressed at budgeting stage. In addition, without IT strategic and steering committees, the Unit may not identify potential security problems and mitigate these IT issues.

4. Understaffing of the Unit

The statement of profit or loss and other comprehensive income reflects staff costs amount of Kshs.41,733,009 as disclosed in Note 7 to the financial statements. Further, the staff establishment list provided for audit revealed staff-in-post of forty-nine (49) against an approved establishment of one hundred and twelve (112), resulting to understaffing of sixty-three (63).

Lack of adequate human labour may negatively affect service delivery and the organizational goals including unachieved targets.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by 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, adequate accounting records have been kept by the Unit, so far as appears from the examination of those records; and,
- iii. The Unit's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Unit's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Unit or cease its operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the Unit's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of 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. 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.
- 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 Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that are identified during the audit.

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



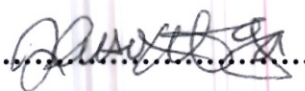
FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

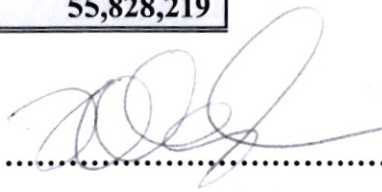
25 March, 2024

**STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR
ENDED 30 JUNE 2023**

REVENUES		2023	2022
	Notes	Kshs	Kshs
Turnover	[2]	36,011,721	22,039,249
		36,011,721	22,039,249
Less cost of Sales	[3]	(15,110,687)	(15,459,576)
Gross Profit		20,901,034	6,579,679
Grants	[4]	94,805,100	139,900,000
Total Gross Income		115,706,134	146,479,679
EXPENDITURE			
Establishment Expenses	[5]	(2,848,363)	(1,205,710)
Board Expenses	[6]	(13,325,156)	(5,468,652)
Staff Costs	[7]	(41,733,009)	(29,478,667)
Operating Expenses	[8]	(22,874,755)	(13,762,178)
Other Operating Expenses	[9]	(8,126,471)	(1,607,148)
Selling expenses	[10]	(2,841,745)	(14,435,638)
Finance Costs	[11]	(222,653)	(141,702)
Total Expenses		(91,972,152)	(66,099,695)
Loss/ Profit for the year		23,733,982	79,754,599
Less Corporation Tax	[12]	(7,120,195)	(23,926,380)
Net Loss/ Profit for the year		16,613,788	55,828,219


.....
Managing Director/ C.E.O


.....
Head of Finance & Accounts


.....
Chairman Board of Directors

DR. JOEL MABONGA

SALOME A. ODEK (ICPAK M/NO:

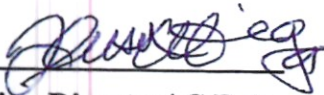
21822)DR. PATRICK K. MUSYOKA

The significant accounting policies and the notes set out on pages 7 to 19 forms an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2023

ASSETS	NOTE	2023	2022
Non current assets		Kshs	Kshs
Property, Plant & Equipment	[13]	110,305,296	92,559,569
		110,305,296	92,559,569
Current assets			
Inventories	[14]	30,959,210	23,778,776
Receivables & Prepayments	[15]	102,804,148	75,191,172
Cash and bank balance	[16]	23,232,793	55,945,819
		<u>156,996,150</u>	<u>154,915,767</u>
TOTAL ASSETS		267,301,447	247,475,336
CAPITAL & RESERVES			
Retained Earnings	[18]	67,606,199	50,992,411
Revaluation Reserve	[19]	67,633,650	67,633,650
Capital Reserves	[20]	71,085,064	71,085,064
Deferred Special Grant	[21]	44,167,394	44,167,394
TOTAL CAPITAL AND RESERVES		250,492,307	233,878,519
LIABILITIES			
Current Liabilities			
Trade & other Payables	[22]	16,809,140	13,596,817
TOTAL CAPITAL RESERVES & LIABILITIES		267,301,447	247,475,336

The Financial Statements set out on pages 1 to 7 were signed on behalf of the Board of Directors on 22 / 12/ 2023 by:



Managing Director/ C.E.O
JOEL MABONGA



Chairman Board of Directors
PATRICK K. MUSYOKA

The significant accounting policies and the notes set out on pages 8 to 22 forms an integral part of these financial statements.

**SCHOOL EQUIPMENT PRODUCTION UNIT ANNUAL REPORT &
FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE, 2023**



STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2023

	Retained earnings Kshs	Revaluation Reserves Kshs	Capital Reserves Kshs	Deferred Special Grant Kshs	Total Kshs
Balance as at 01.07.2020	(18,223,887)	67,633,650	71,085,064	44,167,394	164,662,221
Government Development Grant	-	-	-	-	-
Differed Special Grant Utilized	-	-	-	-	-
Profit/Loss for the period	3,186,734	-	-	-	3,186,734
Provsion for corporation tax (Adjusted)	10,201,345	-	-	-	10,201,345
Balance as at 30.06.2021	(4,835,808.00)	67,633,650	71,085,064	44,167,394	178,050,300
	Retained earnings Kshs	Revaluation Reserves Kshs	Capital Reserves Kshs	Deferred Special Grant Kshs	Totals Kshs
Balance as at 01.07.2021	(4,835,808)	67,633,650	71,085,064	44,167,394	178,050,300
Government Development Grant	-	-	-	-	-

Government Development Grant	-	-	-	-	-
Differed Special Grant Utilized					-
Profit for the period	55,828,219	-	-	-	55,828,219
Balance as at 30.06.2022	50,992,411	67,633,650	71,085,064	44,167,394	233,878,519
Balance as at 01.07.2022	50,992,411	67,633,650	71,085,064	44,167,394	233,878,519
Government Development Grant	-	-	-	-	-
Differed Special Grant Utilized	-	-	-	-	-
Profit/Loss for the period	16,613,788	-	-	-	16,613,788
Balance as at 30.06.2023	67,606,199	67,633,650	71,085,064	44,167,394	250,492,307


Capital reserve represents:

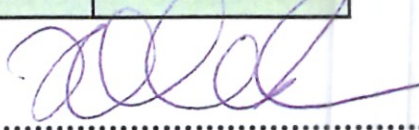
The accumulated grants and loans received from/ or through the Kenya Government net of accumulated trading losses prior to incorporation in 1976.

Provision for corporation tax (Adjusted) relates to a reduction in assessed corporation tax by KRA.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2023

		2023	2022
	Notes	Kshs	Kshs
Profit /Loss before taxation		23,733,982	79,754,599
Add Depreciation for the year	[13]	7,470,221	1,198,350
Cash flows from operating activities		31,204,203	80,952,949
Less: Investment Income		-	-
		31,204,203	80,952,949
Changes in Working Capital			
Increase/(Decrease) in operating assets:			
Increase/ Decrease in Receivables & Prepayments		778,444	10,838,755
Increase/ Decrease in Payables & Accruals		3,212,323	(231,272)
Increase/(Decrease) in inventory		(7,180,434)	(9,588,274)
		(3,189,667)	1,019,209
Tax paid			
Net cash flows from operating activities		27,664,536	81,972,158
Cash flows from Investing activities			
Purchase of Property plant & Equipment	[13]	(25,215,946)	-
Add: Investment income		-	-
Net Cash Generated from Investing activities		(25,215,946)	-
Cash flows from Financing activities			
Increase/(Decrease) in Deferred Special Grant		-	-
Development Grant		-	-
Net Cash Generated from Financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		-32,713,026	50,912,790
Cash and cash equivalents at 1st July, 2022		55,945,819	5,033,029
Cash and cash equivalents at 30 June, 2023	[16 i.]	23,232,793	55,945,819

.....

Managing Director/ C.E.O
DR. JOEL MABONGA

.....

Chairman Board of Directors
DR. PATRICK K. MUSYOKA

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2023

SCHOOL EQUIPMENT PRODUCTION UNIT

STATEMENT OF BUDGET COMPARISON

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% Variance	Performance Variance
	2022-2023	2022-2023	2022-2023	2022-2023	2022-2023		
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs	%	
Sale of goods	40,000,000	5,000,000	35,000,000	36,011,721	1,011,721	2.89	Effects of more orders received
Sale of services	-	-	-	-	-		
Transfers from the Government	99,900,000	-	99,900,000	94,805,100	-5,094,900	-5.1	Adjustments in Supplementary Budget to reduce on costs
Finance Income	-	-	-	-	-	-	
Total income	139,900,000	5,000,000	134,900,000	130,816,821	-4,083,179	-3.02	Adjustments in Supplementary Budget
Expenses							
Compensation of employees	32,080,000	3,961,000	36,041,000	41,733,009	5,692,009	15.8	Hiring of contract and casual employees

Use of goods and services	-	-	-	-	-	-	
Finance cost	200,000	-	200,000	222,653	22,653	11.3	Under provision of finance costs.
Rent paid	-	-	-	-	-	-	
Taxation paid	-	-	-	-	-	-	
Other Payments	60,150,000	-	60,150,000	50,016,490	-10,133,510	-16.8	
Grants and subsidies paid	-	-	-	-	-	-	
Total expenditure	92,430,000	3,961,000	96,391,000	91,972,152	-4,418,848	-4.58	
Surplus for the period	47,470,000	1,039,000	38,509,000	38,844,669	335,669	0.87	Effects of supplementary budget

NOTES TO THE FINANCIAL STATEMENTS

[1.] Summary of Significant accounting Policies

The principal 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.

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 to 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 2023.

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.



HOOL EQUIPMENT PRODUCTION UNIT ANNUAL REPORT & FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE, 2023

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 2023 and 30th June 2022 is as shown below:

	30 June, 2023	30 June, 2022
	Kshs.	Kshs.
Receivables & Prepayments	102,804,142	75,191,172
Cash and cash equivalent	23,232,792	55,945,819

Revenue recognition

Revenue is recognized only when the unit has substantially completed a revenue generation process that is 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 have not enabled it to maintain adequate cash balances in the bank.

The amount of trade and other payables of the unit as 30th June 2023 and 30th June 2022 are as below:

	30 June, 2023	30 June, 2022
	Kshs.	Kshs.
Trade & Other Payables	16,809,140	13,596,817

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.

vi) 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.



SCHOOL EQUIPMENT PRODUCTION UNIT ANNUAL REPORT & FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE, 2023

NOTES TO THE FINANCIAL STATEMENTS (Continued.)

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:

	30/06/2023	30/06/2022
	Kshs	Kshs
Recurrent grant	94,805,000	139,900,000
Development grant	-	-
	<u>94,805,000</u>	<u>139,900,000</u>

ii.) Directors Remuneration

Allowance and other expenses	13,325,156	5,468,652
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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 provisions are made after the contingency is valued.

The following is the contingency which exists within the unit that is in progress;

i.) Imara Daima Land at Industrial Area encroached by squatters

SEPU was allocated land by the Government of Kenya that has not been developed as a result of financial challenges. This resulted to the land being encroached by squatters. Efforts to evict them have been fruitless as the squatters have resisted to be evicted. The Management of SEPU is in the process of reclaiming the land as the matter is being addressed by the Chairman National Land Commission on behalf of SEPU.

ii.) Litigation - Supreme Court Case on Vulcan Lab

Vulcan Lab Ltd. On 13th April 2023, appealed to the supreme court for review of the ruling of the court of appeal at Nairobi dated 16th April 2021. The supreme court accepted the appeal. SEPU was also informed of the Vulcan supreme court appeal notice by Korongo & co Advocates on 12th/06/2023. On 4th July, 2023 the matter came up before supreme court for directions and was set for further mention on 21st July 2023,

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

	2023 Kshs	2022 Kshs
[2] Turnover		
Turnover for the year	36,041,271	22,039,249
Less sales Returns	(29,550)	-
Net Turnover	36,011,721	22,039,249
[3] Cost of Sales		
Opening stock	23,778,776	14,190,503
Add-purchases	22,291,121	25,047,849
Less- closing Stock	(30,959,210)	(23,778,776)
	15,110,687	15,459,576
[4] Government Grants		
a Recurrent Grant	94,805,100	139,900,000
b Development Grant	-	-

SCHEDULE OF EXPENDITURE

		2023	2022
		Kshs	Kshs
[5]	Establishment Expenses		
	Repairs & maintenance of Equipment & Building	141,921	42,625
	Motor vehicle running expenses & repairs	2,706,442	1,163,085
		2,848,363	1,205,710
[6]	Board Expenses		
	Sitting Allowance	4,560,000	2,180,000
	Subsistence Allowance	3,402,526	1,450,000
	Honoraria	960,000	400,000
	Lunch & Snacks	276,000	228,292
	Transport	3,406,630	822,360
	Airtime	60,000	28,000
	Training	660,000	360,000
		13,325,156	5,468,652
[7]	Staff Costs		
	Salaries & wages	31,601,592	28,102,465
	Staff uniform	256,167	-
	Annual Leave Allowance	204,000	246,000
	Pension Expenses- employer	2,155,000	1,126,012
	Staff medical expense	-	4,200
	Insurance premiums (Medical)	7,500,000	-
	Baggage Allowance	16,250	-
		41,733,009	29,478,677
[8]	Operating Expenses		

Telephone & faxes	549,793	633,749
Printing and stationery	635,703	576,863
Insurance premiums (General)	554,029	78,050
Local Travelling & subsistence	9,428,792	3,513,320
Subscriptions and Donations	82,951	55,850
Office expenses	3,833,707	3,075,891
Training & recruitment	1,651,650	1,047,273
Electricity & water	595,224	415,665
Hospitality	929,807	1,789,245
IT Expenses	792,345	1,722,728
Security services	795,904	577,544
Team Building & End of Year Party	557,926	276,000
Strategic Plan	1,682,049	-
Upgrading Science Kit Expenses	784,875	-
	<u>22,874,755</u>	<u>13,762,178</u>



SCHEDULE OF EXPENDITURE (CONT.)

	2023 Kshs	2022 Kshs
[9] Other Operating Expenses		
Audit fees	656,250	350,000
Professional & Legal fees	-	-
Depreciation Expense	7,470,221	1,257,148
	8,126,471	1,607,148
[10] Selling expenses		
Advertising, sales promotion & marketing	1,948,008	7,510,989
Packing materials (Stores Expenses)	259,769	33,025
Transport-Despatch & postage	633,968	6,891,624
	2,841,745	14,435,638
[11] Finance Costs		
Bank charges	222,653	141,702
	222,653	141,702
[12] Corporation Tax		
Profit for the year	23,733,982	79,754,599
Tax for the year (30%)	(7,120,195)	(23,926,380)

**SCHOOL EQUIPMENT PRODUCTION UNIT
ANNUAL REPORT & FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE,
2023**



PROPERTY, PLANT & EQUIPMENT							
	Land	Buildings	Motor vehicles	Computers & Accessories	Machinery & Equipment	Furniture & Fittings	TOTAL
		2.50%	25%	30%	15%	12.50%	
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
COST	63,000,000	35,074,533	3,321,155	1,875,446	11,896,656	1,431,810	116,599,600
Balance as at 01.07.2021							
Additions	-	-	-	-	-	-	-
Disposal	-	-	-	-	-	-	-
Balance as at 30.06.2022	63,000,000	35,074,533	3,321,155	1,875,446	11,896,656	1,431,810	116,599,600
DEPRECIATION							
Balance as at 01.07.2021	-	7,385,270	3,176,245	1,534,214	10,108,384	637,569	22,841,682
Charge for the year	-	692,232	36,228	102,370	268,241	99,280	1,198,351
Balance as at 30.06.2022	-	8,077,502	3,212,472	1,636,583	10,376,625	736,849	24,040,031
NET BOOK VALUE							
Balance as at 30.06.2021	63,000,000	27,689,263	147,911	341,233	1,788,273	794,241	93,757,919
Balance as at 30.06.2022	63,000,000	26,997,031	108,683	238,863	1,520,032	694,961	92,559,570
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
COST							
Balance as at 01.07.2022	63,000,000	35,074,533	3,321,155	1,875,446	11,896,656	1,431,810	116,599,600

Additions	-	-	21,646,300	2,911,400	572,546	85,700	25,215,946
Balance as at 30.06.2023	63,000,000	35,074,533	24,967,455	4,786,846	12,469,202	1,517,510	141,815,546
DEPRECIATION							
Balance as at 01.07.2022	-	8,077,502	3,212,472	1,636,583	10,376,624	736,849	24,040,031
Charge for the year	-	674,926	5,438,746	945,079	313,887	97,583	7,470,221
Balance as at 30.06.2023		8,752,428	8,651,218	2,581,662	10,690,511	834,432	31,510,252
NET BOOK VALUE							
Balance as at 30.06.2022	63,000,000	26,997,031	108,683	238,863	1,520,032	694,961	92,559,570
Balance as at 30.06.2023	63,000,000	26,322,105	16,316,237	2,205,184	1,778,691	683,078	110,305,296

Note:
Buildings constructed on land leased to the company from University of Nairobi Kenya Science campus at a peppercon rental.
Additions under computer and accessories represents televisions and water dispenser.
Additions under furniture represents executive chairs and desk for Managing Directors office.
Additional machinery represents a fan heater.

SCHEDULE OF EXPENDITURE (CONT.)

	2023 Kshs	2022 Kshs
[14] Inventories		
Chemical Stocks	1,103,488	931,300
Equipment stock	23,290,920	20,329,406
Work shop stocks	5,939,442	1,999,770
Work in progress	625,360	518,300
NB – The value for stock excludes expired chemical stock due for disposal valued at Kshs. 50,625.50	30,959,210	23,778,776
[15] Receivables & Prepayments		
Trade Receivables	28,531,621	29,620,931
Other Current Assets		
Staff Advances	<u>1,207,650</u>	<u>896,784</u>
	29,739,271	30,517,715
Less Provision for doubtful debts	<u>(2,022,004)</u>	<u>(30,413,424)</u>
	<u>27,717,267</u>	<u>104,291</u>
Add Receivable from Ministry of Education	75,086,881	75,086,881
Total Net Debtors	102,804,148	75,191,172
[16] Cash & Bank balances		
Kenya Commercial Bank Limited (Balance as per Cashbook)	2,698,963	55,490,608
National Bank of Kenya Limited	795,475	265,977
Co-operative Bank of Kenya	19,699,361	-

Cash at Hand

38,994

33,624

23,232,793

55,790,209

Cash and Cash Equivalents

Cash and Cash Equivalents consists of cash on hand, cash at bank and Investments.

Cash in hand and at bank

23,232,793

55,790,209

[17] Investment (Call Deposit)

-

155,610

Cash and Cash Equivalents

23,232,793

55,945,819

**SCHOOL EQUIPMENT PRODUCTION UNIT
ANNUAL REPORT & FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE, 2023**

NOTES TO THE FINANCIAL STATEMENTS (CONT.)			
		2023	2022
		Kshs	Kshs
[17]	Investment (Call Deposit)		
	Co-operative Bank of Kenya Limited	-	<u>155,610</u>
		-	<u>155,610</u>
[18]	Retained Earnings /(losses)		
	Retained Earnings /(losses)	50,992,411	50,992,411
	Profit/ Loss	16,613,788	
	Surplus/Deficit	<u>67,606,199</u>	<u>50,992,411</u>
	NB - The figure of Kshs. 80,046,576 for the previous year 2022 was wrongly captured in the notes to the financial statement. The correct figure is Kshs. 50,992,411 as stated in the statement of changes in equity.	-	-
[19]	Revaluation Reserve		
	Revaluation Reserve on land	63,000,000	63,000,000
	Revaluation Reserve on Buildings	<u>4,633,650</u>	<u>4,633,650</u>
		<u>67,633,650</u>	<u>67,633,650</u>
[20]	Capital & Reserves		
	Opening balance	71,085,064	71,085,064
	Government Development Grant	-	-
		<u>71,085,064</u>	<u>71,085,064</u>
[21]	Deferred Special Grant		
	Opening balance	<u>44,167,394</u>	<u>44,167,394</u>
		<u>44,167,394</u>	<u>44,167,394</u>
[22]	Trade & Other Payables		

	Trade Payables		11,187,790		7,655,467
	Accrued Audit Fees		350,000		350,000
	Retirement benefits (pensions)		816,066		816,066
	Provision for Dividend to National Treasury		1,500,000		1,500,000
	Gratuity for Pension Scheme		1,404,070		1,404,070
	National Social Security Funds (Penalty - FY;2004)		-		320,000
	Provision for Corporate tax		1,480,503		1,480,503
	M. Korongo & Advocates		<u>70,711</u>		<u>70,711</u>
			<u>16,809,140</u>		<u>13,596,817</u>

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue <i>(Name and designation)</i>	Status: <i>(Resolved / Not Resolved)</i>	Timeframe: <i>(Put a date when you expect the issue to be resolved)</i>
1.	Encroachment on Unit's Land	Management written to Commissioner of Lands and Principal Secretary Ministry of education concerning land recovery.	Dr. Joel Mabonga Managing Director	Not resolved In progress	30 th June 2024
2.	Receivables and Prepayments	The long outstanding debts are waiting to be written off as the management seeks the authority from National Treasury. Debtors' policy has been developed.	Dr. Joel Mabonga Managing Director	Not resolved In progress	30 th June 2024
3.	Other Trade and Payables	<ul style="list-style-type: none"> The long outstanding trade and other payables are waiting to be written off as the management seeks the authority from National Treasury. Debtors' policy has been developed. 	Dr. Joel Mabonga Managing Director	Not resolved In progress	30 th June 2024
4.	Unsupported and Unconfirmed Bank cash and Balance	The Unit has resolved this issue.	Salome A. Odek Head of Finance & Accounts	Resolved	30 th June 2023
5.	Misclassification of expenditure	The Unit has resolved this issue.	Dr. Joel Mabonga Managing Director	Resolved	30 th June 2023



APPENDIX III: INTER- ENTITY TRANSFERS

Break Down of Transfers from State Department for Basic Education (Ministry of Education)

FY 2022/2023			
a. Recurrent Grants			
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>FY to which the amounts relate</u>
Kenya Commercial Bank	6/8/2022	8,325,000.00	2022/2023
Kenya Commercial Bank	12/8/2022	8,325,000.00	2022/2023
Kenya Commercial Bank	4/10/2022	8,325,000.00	2022/2023
Kenya Commercial Bank	1/11/2022	8,325,000.00	2022/2023
Kenya Commercial Bank	13/12/2022	8,325,000.00	2022/2023
Kenya Commercial Bank	29/12/2022	8,325,000.00	2022/2023
Kenya Commercial Bank	6/2/2023	8,325,000.00	2022/2023
Kenya Commercial Bank	29/3/2023	8,325,000.00	2022/2023
Kenya Commercial Bank	15/4/2023	8,325,000.00	2022/2023
Kenya Commercial Bank	5/6/2023	6,626,700.00	2022/2023
Kenya Commercial Bank	23/6/2023	6,626,700.00	2022/2023
Kenya Commercial Bank	3/7/2023	6,626,700.00	2022/2023
	Total	94,805,100.00	
b. Development Grants			
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>FY to which the amounts relate</u>
Kenya Commercial Bank	-	-	-
	Total	-	-

The above amounts have been communicated to and reconciled with the parent Ministry.

Head of Finance & Accounts (SEPU)

Sign.....

Date.....22/12/2023

Head of Accounting Unit Ministry of Education

Sign.....

Date....22/12/2023

