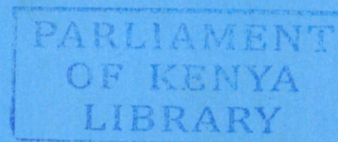
 <b>THE NATIONAL ASSEMBLY</b> PAPERS LAID	
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<b>CLERK-AT-THE-TABLE:</b>	S. Kalama

**REPORT**

**OF**



**THE AUDITOR-GENERAL**

**ON**

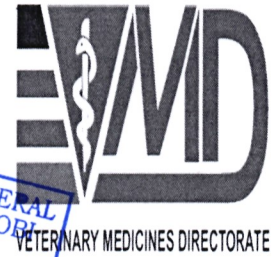
**VETERINARY MEDICINES DIRECTORATE**

**FOR THE YEAR ENDED  
30 JUNE, 2019**





VETERINARY MEDICINES DIRECTORATE  
P. O. Box 66171-00800  
Westlands, Nairobi  
Telephone: 0743795395  
Email: VMD@kilimo.go.ke



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**MINISTRY OF AGRICULTURE, LIVESTOCK, FISHERIES AND  
IRRIGATION**

**STATE DEPARTMENT OF LIVESTOCK**

**VETERINARY MEDICINES DIRECTORATE**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2019**

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

**Veterinary Medicines Directorate  
Annual Reports and Financial Statements  
For the year ended June 30, 2019**

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**KEY ENTITY INFORMATION AND MANAGEMENT**

**(a) Background information**

The Veterinary Medicines Directorate (VMD) was established under the Veterinary Surgeons and Veterinary Paraprofessionals, Act CAP 366, on 16<sup>th</sup> September, 2011. The entity is domiciled in Kenya. The VMD Regulations, 2015 operationalize the entity. The operationalization VMD implements the National Livestock Policy as contained in Sessional Paper No. 2 of May 2008, which provides for the separation of the management of veterinary medicines from that of humans.

VMD is envisaged to have four departments once the structure is finalised. The departments include- product registration, inspectorate and pharmaco-vigilance, trade affairs, and administration and finance.

The management of the entity is vested on a Council appointed under the stated regulations.

**(b) Principal Activities**

VMD has a mandate to:

- (a) Regulate the manufacture, importation, exportation, registration, distribution, prescription and dispensing of veterinary medicines and the practice of veterinary pharmacy in Kenya; and
- (b) Advise the Kenya Veterinary Board in relation to all aspects listed under paragraph

**The functions of VMD include:**

1. Formulation and enforcement of quality assurance standards in the manufacture, distribution and use of veterinary medicines in order to safeguard human, animal and environmental health;
2. In consultation with the Directorate of Veterinary Services, regulate the use of veterinary medicines for the treatment of animals under the Animal Diseases Act;
3. Consideration of applications for approval of market authorization of veterinary medicines;
4. Setting quality assurance standards for training in the management of veterinary medicines as directed by the Kenya Veterinary Board;
5. Collaboration with the Kenya Veterinary Board in regulating training in the management of veterinary medicines;
6. Inspection and approval of premises in which the manufacture, sale or supply of veterinary medicines is conducted;
7. Appointment and gazette of veterinary medicine inspectors;
8. Establishing Standard Operating Procedures for veterinary medicines' inspectors;
9. Regulation of veterinary pharmacy practices;
10. Categorization of veterinary medicines and qualifications of persons authorized to trade in each category and reviewing the categories every five years;
11. Regulation of clinical and non-clinical trials of veterinary medicines by individuals or institutions;
12. Regulation of the manufacture, importation, exportation, handling, advertisement, labeling, sale and disposal of veterinary medicines;

**Veterinary Medicines Directorate (VMD)  
Annual Reports and Financial Statements  
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**KEY ENTITY INFORMATION AND MANAGEMENT (Continued)**

13. Registration of all veterinary medicines manufactured or imported for use in the country or exported from the country;
14. Monitoring the market and taking measures necessary for the elimination of trade in illegal and counterfeit veterinary medicines;
15. Establishment of systems of pharmaco-vigilance and conducting pharmaco-vigilance of veterinary medicines through regular inspections and surveys;
16. Enforcement of Good Manufacturing Practices for veterinary medicines as approved by the Council;
17. Development, application and review of guidelines for inspection and ensuring compliance with Good Manufacturing Practices;
18. Ensuring the promotion and marketing of veterinary medicines in accordance with the approved product information;
19. Publication on annual basis of a notice in the Kenya Gazette inviting the public to note and inspect the register of veterinary medicines and the list of approved veterinary practices within such period and at such place as may be specified in the notice;
20. Considering, granting, issuing or revoking authorization and certification in accordance with the Regulations;
21. Collaboration with other regulatory agencies including the Public Health (Standards) Board in Section 27 of the Food, Drugs and Chemical Substances Act, the Pest Control Products Board established under Section 5 of the Pest Control Products Act and the Central Board of Health established under Section 3 of the Public Health Act to carry its mandate and
22. Undertaking any other necessary action for effective carrying out of the Directorate's mandate under the Veterinary Surgeons and Veterinary Paraprofessionals Act or any other Act.

**(c) Key Management**

The Veterinary Medicines Directorate day-to-day management is under the following key organs:

**1. Veterinary Medicines Council**

The Council was appointed by the Cabinet Secretary as per section 8(1) of VMD regulations and consist of:-

- ❖ The Director of Veterinary Services who is the Chairperson- Dr. Obadiah N. Njagi
- ❖ The Registrar of the Pharmacy and Poisons Board- Fred Siyoi
- ❖ The Chief Executive Officer of the Kenya Veterinary Board- Indraph M. Ragwa
- ❖ The Principal Secretary for the time being responsible for Finance/ Alternate- Grace Nyarango
- ❖ The Principal Secretary for the time being responsible for animal health matters/Alternate- Christopher Wanga
- ❖ Three veterinary surgeons nominated by the Kenya Veterinary Board:
  - Josiah Mandieka M
  - Kenneth Mbogori
  - James M. Mbaria
- ❖ One of veterinary technologist from the veterinary pharmaceutical industry nominated by the Kenya Veterinary Board- Samson Moses Kiogora
- ❖ The Chief Executive Officer of the Directorate who's also the Secretary- Nathan K. Songok

**Veterinary Medicines Directorate (VMD)  
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**KEY ENTITY INFORMATION AND MANAGEMENT (Continued)**

**2. Ag. Chief Executive Officer**

By the closure of the financial year under reporting the Chief Executive Officer in an acting capacity was Dr. Naphtal Mwanziki.

**3. Secretariat**

The Secretariat consists of Four (4) heads of departments

**(d) Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2019 and who had direct fiduciary responsibility were:

<b>No.</b>	<b>Designation</b>	<b>Name</b>
1.	Council Chairman	Obadiah N. Njagi
2.	Ag.CEO	Naphtal Mwanziki.
3.	Head of Accounts	Henry Matoke Momata
4.	Head of Procurement	Carolyn Waweru

**(e) Fiduciary Oversight Arrangements**

Veterinary Medicines Directorate (VMD) operates under the following committees:-

- ❖ Veterinary Medicines Registration Committee
- ❖ Administration and Finance Committee
- ❖ Audit and Risk management Committee
- ❖ Ad Hoc Committee

**Veterinary Medicines Directorate (VMD)  
Annual Reports and Financial Statements  
For the year ended June 30, 2019**

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**KEY ENTITY INFORMATION AND MANAGEMENT (Continued)**

**(f) Entity Headquarters**

P.O. BOX 66171-00800  
Pest Control Products Board Plaza  
Off Waiyaki Way  
WESTLANDS, NAIROBI.

**(g) Entity Contacts**

Telephone: (254)074379539  
E-mail: VMD@kilimo.go.ke  
Website: www.vmd.go.ke

**(h) Entity Bankers**

National Bank of Kenya  
Westlands Branch  
P.O.Box 1613-00606  
Nairobi, Kenya

**(i) Independent Auditors**

Office of the Auditor - General  
Anniversary Towers, University Way  
P.O. Box 30084  
GOP 00100  
Nairobi, Kenya



**(j) Principal Legal Adviser**

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






**Veterinary Medicines Directorate (VMD)  
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**KEY ENTITY INFORMATION AND MANAGEMENT (Continued)**

**THE BOARD OF DIRECTORS**

<div style="text-align: center;">  </div> <p>1. Dr. Obadiah N. Njagi, PhD Veterinary Surgeon, Director of Veterinary Services and Chairman Veterinary Medicines Council- BVM, MSC, Ph.D</p>	<p>Born on 12<sup>th</sup> December, 1963, Dr. Obadiah N. Njagi is the current Director of Veterinary Services and first Chairman of Veterinary Medicines Council. He's also a board member of Kenya Animal genetics Resource Center (KAGRIC). He has in particular, been an active member for over 8 years at the Pest Control Products Board (PCPB).</p> <p>He has served in the Directorate of veterinary services for over 30 years since graduating with a bachelor's degree in Veterinary Medicine in 1988.</p> <p>He has contributed significantly to the development and delivery of Veterinary Services in Kenya and the EA community. He is most credited for his focused leadership in the development and national roll-out of ECF Vaccine and the regulatory framework for Veterinary Vaccines in EA region</p> <p>He holds a Master's Degree in Veterinary Pathology and a PhD in Veterinary Immunology.</p>
<div style="text-align: center;">  </div> <p>2. Dr. Josiah M. Mandieka, Veterinary Surgeon, BVM, MSC</p>	<p>Dr Mandieka was born on 17<sup>th</sup> September, 1959. He graduated with a Bachelor's Degree in Veterinary Medicine from the of University of Nairobi. He also has a MSC from Canada. He worked in the public Service from 1987 to 1998 rising to the position of the District Veterinary Officer. Thereafter he joined the Veterinary Pharmaceutical Industry where he has served to date.</p> <p>He has previously served as a chairman of Kenya Veterinary Association, Kenya Veterinary Privatisation Scheme and Veterinarians with a Mission Programme</p> <p>He is the Current Managing Director of the Ultimate Vetserve LTD, a Veterinary Pharmaceutical Company.</p>

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 <p>4. Samson Moses Kiogora</p>	<p>Mr. Samson Kiogora graduated with a diploma in Animal Health from Egerton University in 1989. He has 25 years experience in sales of Animal Health Products and also human medicines.. He has been declared four times as a salesman of the year, hence receiving awards for the same.</p> <p>He served as a member of Egerton University Council from 2012 to 2014</p>
 <p>5. Dr. Indraph Mugambi Ragwa Veterinary Surgeon, BVM, MA (Project Planning and Management)</p>	<p>Dr. Indraph Mugambi Ragwa was born on 17th April, 1957. He qualified with a Bachelor of Veterinary Medicine in 1983 from the University of Nairobi. He did his Master of Arts (Project Planning and Management) from UON in 2012. He has 32 years experience in Veterinary Practice and is currently the Chief Executive Officer, Kenya Veterinary Board.</p>
 <p>6. Dr. Fred Siyoi</p>	<p>A pharmacist born on 31<sup>st</sup> March, 1963. He is currently the Ag. Chief Executive officer, Pharmacy and Poisons Board.</p>
 <p>7. Dr. Kenneth Mbogori</p>	<p>Dr. Kenneth Mbogori was born on 9<sup>th</sup> February, 1960. He is a visionary business leader and an entrepreneur. He's a qualified Veterinarian with extensive knowledge in Veterinary Pharmaceuticals</p> <p>He has over 20 years of sales, marketing and management experience. He's currently the MD of Metrovet Kenya Limited, a Veterinary Pharmaceutical business</p>
 <p>8. Prof. James M. Mbaria</p>	<p>An Associate Professor and the Chairman of Public Health Pharmacology and Toxicology, Faculty of Veterinary Medicine, University of Nairobi. He holds an earned PhD, MSc and BVM</p> <p>He has administrative experience including leadership at the university and professional association. He has 30 years of professional experience. During teaching and instruction, he has provided academic leadership teaching both undergraduate and postgraduate students, organising and guiding research programs.</p>

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9. Dr. Christopher Wanga, PhD

Dr Christopher Wanga is a Veterinary Surgeon With a Bachelor's Degree in Veterinary Medicine, MSC and a PhD.

He is the alternate to the Principal Secretary, State Department for Livestock






10. Dr. Naphtal Mwanziki BVM, MSC

Dr Mwanziki holds a Master of Science degree in Veterinary Epidemiology and Public Health from the Royal Veterinary College and a Master of Science degree in Veterinary Studies from the University of Sydney. He got his Bachelor of Veterinary Medicine degree from the University of Nairobi. He accumulated over 14 years' experience in Veterinary Medicines sales and regulation in the private sector prior to joining the public service where he attained clinical veterinary experience in the field prior to being deployed to undertake regulatory functions of Veterinary Pharmaceutical Products and Biologicals at the Directorate of Veterinary Services. He was later deployed as one of the pioneer employees to set up the nascent Veterinary Medicines Directorate secretariat and participated actively and centrally in its set up and operationalization

**Veterinary Medicines Directorate (VMD)  
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**MANAGEMENT TEAM.**

 <p>1. Dr. Obadiah N. Njagi, PhD</p>	<p>Chairs the Council meetings and gives overall leadership to the Directorate. He's a signatory to the two accounts of the entity.</p>
 <p>2. Dr. Naphtal Mwanziki BVM, MSC</p>	<p>Dr Mwanziki holds a Master of Science degree in Veterinary Epidemiology and Public Health from the Royal Veterinary College and a Master of Science degree in Veterinary Studies from the University of Sydney. He got his Bachelor of Veterinary Medicine degree from the University of Nairobi. He accumulated over 14 years' experience in Veterinary Medicines sales and regulation in the private sector prior to joining the public service where he attained clinical veterinary experience in the field prior to being deployed to undertake regulatory functions of Veterinary Pharmaceutical Products and Biologicals at the Directorate of Veterinary Services. He was later deployed as one of the pioneer employees to set up the nascent Veterinary Medicines Directorate secretariat and participated actively and centrally in its set up and operationalization</p>
 <p>2. Henry Matoke Momata An accountant, CPA (K) with a Bachelors Degree in Business Management.</p>	<p>Accountant for Veterinary Medicines Directorate (VMD)</p>

**Veterinary Medicines Directorate (VMD)  
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## **CHAIRMAN'S STATEMENT**

The chairman offered leadership in general implementation of VMD mandate. He led the management in the implementation of the overall goals of VMD whereby some challenges were encountered among them;-

- ❖ Inadequate staff (support and technical)
- ❖ Inadequate infrastructure including office space
- ❖ Inadequate transport and ICT
- ❖ Inadequate enforcement of existing laws and regulations

### **Way Forward:**

#### **A. Immediate term.**

- ❖ Procure one vehicles for the Directorate
- ❖ Procure additional computers and furniture.
- ❖ Develop VMD Strategic Plan
- ❖ Develop Human Resource Documents- scheme of service for staff and work on the structure of the directorate
- ❖ Gazette appointed veterinary medicines inspectors

#### **B. Short term.**

1. Prepare to building the capacity of staff on:-

- ✓ prosecution of those not meeting regulatory requirements,
- ✓ various standards e.g. Good Manufacturing Practice, GLS, Good Distribution Practice

#### **i. Medium Term;-**

1. Undertake benchmarking visits to world class veterinary medicines regulatory bodies to study and learn best practises,

#### **ii. Long Term:-**

- ❖ Secure adequate office space.
- ❖ Acquire a well trained and motivated staff with enough logistical support to adequately discharge the mandate of the directorate to the full satisfaction of all stakeholders.

**Veterinary Medicines Directorate (VMD)**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2019**

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**REPORT OF THE CHIEF EXECUTIVE OFFICER**

The Veterinary Medicines Directorate (VMD) is a regulatory agency established under the Veterinary Surgeons and Veterinary Paraprofessionals Act of 2011 (CAP 366) through Legal Notice No. 209 of 9<sup>th</sup> October 2015. The agency operates under the Ministry of Agriculture, Livestock, Fisheries and Irrigation (MALF&I) in the State Department for Livestock (SDL).

VMD is mandated to regulate the manufacture, importation, exportation, registration, distribution, prescription and dispensing of Veterinary Medicines and the practice of Veterinary Pharmacy in Kenya. It is also expected to advise the Kenya Veterinary Board (KVB) in relation to all these aspects. VMD council members were gazetted on 26<sup>th</sup> October, 2016 while the official launch of the operations of the agency took place on the 24<sup>th</sup> of November, 2017 by the then Principal Secretary in the SDL. The operationalization of the VMD was to implement the National Livestock Policy (Sessional Paper No 2 of 20080), which provided for the separation in the management and regulation of Veterinary Medicines from that of humans as envisioned by the World Organisation for Animal Health (OIE).

The 2018/2019 FY was therefore the second year, in terms of financial reporting, for the operations of the Council.

During the reporting year, VMD achieved the following;

The agency received 128 new market authorization applications and evaluated 65 dossiers; 44 new products (Immunological & pharmaceuticals) products have been granted market authorization. Two products were granted under Mutual Recognition Procedure for East Africa Community with Kenya being chosen as the Reference Country.

Six Veterinary pesticides handed over from Pest Control Products Board were granted market authorization Thirty-four Veterinary Pharmaceutical Products and were inherited from the Pharmacy and Poison Board and granted market authorization Three local plants have been audited for GMP compliance and licensing is ongoing Five variations and notification have been applied and processed. Two hundred and eighteen (218) retentions for 2018 have been received and processed. Five hundred (500) retentions for 2019 have been received and processed.

In addition; Licensing of Wholesale dealers has been undertaken with a total of 48 entities receiving wholesale dealers' licenses for 2019; Two hundred and eight retail outlets have been issued with retail veterinary licenses; Five applications for advertisements of veterinary products have been evaluated; Fifteen applications for licensing of veterinary pharmaceutical representatives are currently being evaluated with a view to issuing them with permits; A draft communication strategy for the directorate has been developed and brochures developed to familiarize stakeholders with VMD and its mandate; Reports to OIE have been filed within time

All approvals for export/import of veterinary products are acted on within 48 hours.

**Veterinary Medicines Directorate (VMD)  
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## **CORPORATE GOVERNANCE STATEMENT**

In the period under review, the VMD council held five seven meetings. Under the regulations establishing the agency (First schedule [1]) it states that ‘The Council shall meet at least four times in a year and not more than eight times a year, except in case of an emergency, for the transaction of its business, and such meetings shall be held at such places and times and on such days as the Council may determine’.

At the moment, VMD has developed a draft strategic plan (2019-2023) that expounds on the Vision, Mission and Charter of the agency.

The manner of appointment of Council members is well explained in Regulation eight of Legal Notice No 190 of 2015. The mandate of the council is as given in Regulation nine and include;

- a) Controlling, supervising and managing the assets and liabilities of the Directorate;
- b) Determining the provision to be made for capital and recurrent expenditure and for the reserves of the Directorate;
- c) Seeking and receiving any grants or donations and making legitimate disbursements from such grants and donations for its purposes;
- d) Levying fees and charges for its services as provided in the Regulations;
- e) Entering into association with other bodies within or outside Kenya which the Council may consider desirable or appropriate;
- f) Investing funds of the Directorate not immediately required in securities in which trustees are empowered to invest under the Trustee Act, and in other securities which may be approved for the purpose, by the Cabinet Secretary for the time being responsible for Finance;
- g) Establishing and supporting investment and trust funds for the benefit of employees or ex-employees of the Directorate or dependants of such persons, granting pension, benefits and allowances and making such payments towards insurance as required under the relevant laws;
- h) Opening and operating such accounts as are necessary for the funds of the Directorate, with a bank or financial institution.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

VMD is still building capacity to fully undertake its mandate. Draft Human Resource Instruments have been developed by consultants from the Directorate of Public Service Management (DPSM). The documents are about to be validated by the Council before being submitted to the Principal Secretary ( PS), State Department for Livestock (SDL) for onward transmission to State Corporations Advisory Committee (SCAC). At the same time, the Council, through the PS, SDL has applied to SCAC for functional categorisation of the agency.

## **CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING**

VMD was engaged with final year students from the Faculty of Veterinary Medicines where mentorship programmed were muted and discussed. A fairway evening party for the final year students was held where the CEO gave a talk encouraging and motivating the students. Staff from the agency also held an open day with students at Animal Health and Industry Training Institute (AHITI), Kabete.

The Council also purchase fruit seedlings for planting as a contribution to its Corporate Social Responsibility.

## STATEMENT OF RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 require the Directors to prepare financial statements in respect of the entity, which give a true and fair view of the state of affairs of the entity at the end of the financial year/period and the operating results of the entity for that year/period. The Directors are also required to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity. The Directors are also responsible for safeguarding the assets of the entity.


The Directors are responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the entity's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012. The Directors are of the opinion that the entity's financial statements give a true and fair view of the state of Veterinary medicines Directorate transactions during the financial year ended June 30, 2019, and of the entity's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

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

### Approval of the financial statements

The *entity's* financial statements were approved by the Board on \_\_\_\_\_ 2019 and signed on its behalf by:

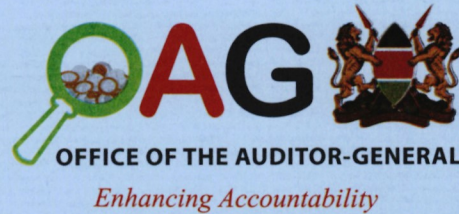
  
\_\_\_\_\_  
**Council Chair**  
**Dr. Obadiah N. Njagi, PhD**

  
\_\_\_\_\_  
**Ag. C.E.O**  
**Dr Naphtal Mwanziki**



# REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke  
Website: www.oagkenya.go.ke



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

## **REPORT OF THE AUDITOR-GENERAL ON VETERINARY MEDICINES DIRECTORATE FOR THE YEAR ENDED 30 JUNE, 2019**

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of Veterinary Medicines Directorate set out on pages 1 to 21, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the 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 Veterinary Medicines Directorate as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Veterinary Surgeons and Veterinary Para-professionals Act, 2011 and the Public Finance Management Act, 2012.

#### **Basis for Qualified Opinion**

##### **1. Inaccuracies in Cash and Cash Equivalents**

The statement of financial position and as disclosed in Note 13 to the financial statements reflects cash and cash equivalents balance of Kshs.111,181,531. This is comprised of bank balances held in two current accounts. However, bank reconciliation statements provided for audit were not supported with adequate supporting documentation for the reconciling items. In addition, the supporting schedules provided by the Management had unexplained and unreconciled differences and did not have the dates of the transactions or when the reconciling items were cleared.

Under the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.111,181,531 as at 30 June, 2019 could not be confirmed.

##### **2. Lack of a Property, Plant and Equipment Register**

The statement of financial position and as disclosed in Note 14 to the financial statements reflects a balance of Kshs.11,847,328 under property plant and equipment. However, the

Directorate in the year under review did not maintain a fixed assets register clearly indicating details such as nature of the asset, acquisition date, cost, depreciation rate, amount, disposals, serial numbers, location and condition.

Consequently, the accuracy, completeness and carrying value of the property, plant and equipment balance of Kshs.11,847,328 as at 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Veterinary Medicines Directorate Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Key Audit Matters**

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

## **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(s) described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources Opinion 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**

#### **Lack of an Internal Audit Function and Audit Committee**

The Directorate did not have an internal audit function and audit committee to review and appraise its existing internal controls, with a view to enhancing the Directorate's operational efficiency, governance and compliance. As a result, there were no internal audit charter, internal audit manual and internal audit reports for the year under review. This was contrary to Section 73 of the Public Finance Management Act, 2012 which provides for the establishment of the internal audit function and the audit committee.

Consequently, Management was in breach of 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 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 sections 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. Lack of Strategic Plan and Key Policy Manuals

Review of the Directorate operations revealed that the Directorate did not have a strategic plan and operational manuals for financial management, accounting, ICT operations and human resources. It was therefore not possible to confirm how controls over the Directorate operations are handled.

#### 2. Lack of a Risk Management Policy

The Directorate does not have a risk management policy in place. This is contrary to Section 165(1) of the Public Finance Management (National Government) Regulations, 2015 which states that the Accounting Officer shall ensure that the national government entity develops a risk management strategy, which include fraud prevention mechanism; and a system of risk management and internal control that builds robust business operations.

Consequently, it has not been possible to confirm whether the risks faced by the company have been identified and appropriately mitigated.

#### 3. Lack of Requisite Staff

The Directorate does not have technical and compliance officers, finance officers or accountants, human resource and procurement officers and relies mainly on the council members and other staff on secondment from the parent ministry. The council members are signatories to the bank accounts and perform managerial duties rather than oversight and corporate governance roles.

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 processes and systems of internal control, risk management and 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.

## **Responsibilities of Management and those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Directorate's ability of to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Directorate or to cease 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.

Those charged with governance are responsible for overseeing the Directorate's financial reporting process, reviewing the effectiveness of how the 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 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 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 control 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 the 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 control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable 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 Directorate's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Directorate to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

  
Nancy Gathungu  
**AUDITOR-GENERAL**

Nairobi

16 November, 2021

**Veterinary Medicines Directorate  
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**STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30 JUNE 2019**

		<b>2018-2019</b>	<b>2017-2018</b>
	Note	31-Dec	31-Dec
		KES	KES
<b>Revenue from non-exchange transactions</b>			
Transfers from Ministries	6	36,260,000	36,800,000
		<b>36,260,000</b>	<b>36,800,000</b>
<b>Revenue from exchange transactions</b>			
Rendering of services	7	58,227,457	19,072,103
		<b>58,227,457</b>	<b>19,072,103</b>
<b>Total revenue</b>		<b>94,487,457</b>	<b>55,872,103</b>
<b>Expenses</b>			
Employee costs	8	11,668,135	3,458,012
Depreciation and amortization expense	9/14	3,697,382	-
Repairs and maintenance	10	121,650	57,428
General expenses	11	4,764,518	3,563,576
<b>Total expenses</b>		<b>20,251,685</b>	<b>7,079,016</b>
<b>Other gains/(losses)</b>			
<b>Surplus before Tax</b>		<b>74,235,772</b>	<b>48,793,087</b>
<b>Surplus for the period</b>		<b>74,235,772</b>	<b>48,793,087</b>

VETERINARY MEDICINES DIRECTORATE FINANCIAL STATEMENTS FOR THE PERIOD ENDED  
JUNE 30, 2019.

V. STATEMENT OF FINANCIAL POSITION  
AS AT 30<sup>TH</sup> JUNE, 2019.

		2018-2019	2017-2018
	Note	30-Jun	30-Jun
Assets		KES	KES
<b>Current assets</b>			
Cash and cash equivalents	12/13	111,181,531	37,152,327
Receivables from exchange transactions		-	-
<b>Total Current Assets</b>		<b>111,181,531</b>	<b>37,152,327</b>
<b>Non-current assets</b>			
Property ,plant and equipment	9/14	11,847,328	11,640,760
<b>Total Non-Current assets</b>		<b>11,847,328</b>	<b>11,640,760</b>
<b>Total Assets</b>		<b>123,028,859</b>	<b>48,793,087</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
<b>Non-current liabilities</b>			
<b>Total liabilities</b>		-	-
<b>Net assets</b>		-	-
Reserves		48,793,087	-
Accumulated Surplus		74,235,772	
<b>Total Net Assets and Liabilities</b>		<b>123,028,859</b>	<b>48,793,087</b>

  
Council Chair  
Dr. Obadiah N. Njagi, PhD

Date: 24/09/2019

  
Ag. C.E.O  
Dr Naphtal Mwanziki

Date: 24-09-2019



**STATEMENT OF CHANGES IN NET ASSETS  
 FOR THE YEAR ENDED 30 JUNE 2019**

	Revaluation reserve	Fair value adjustment reserve	Retained earnings	Capital/Development Grants/Fund	Total
<b>At July 1, 2017</b>	-	-	-	-	-
Revaluation gain	-	-	-	-	-
Transfer of excess depreciation on revaluation	(-)	-	-	-	-
Deferred tax on excess depreciation	-	-	-	-	-
Fair value adjustment on quoted investments	-	-	-	-	-
Total comprehensive income	-	-	-	-	-
Capital/Development grants received during the year	-	-	-	-	-
Retained earnings	-	-	48,793,087	(-)	48,793,087
<b>At June 30, 2018</b>	-	-	48,793,087	-	48,793,087
<b>At July 1, 2018</b>	-	-	48,793,087	-	48,793,087
Issue of new share capital	-	-	-	-	-
Revaluation gain	-	-	-	-	-
Transfer of excess depreciation on revaluation	(-)	-	-	-	-
Deferred tax on excess depreciation	-	-	-	-	-
Fair value adjustment on quoted investments	-	-	-	-	-
Total comprehensive income	-	-	-	-	-
Capital/Development grants received during the year	-	-	-	-	-
Retained earnings	-	-	74,235,772	(-)	74,235,772
<b>At June 30, 2019</b>	-	-	111,181,531	-	111,181,531

**Veterinary Medicines Directorate**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2019**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2019**

		<b>2018-2019</b>	<b>2017-2018</b>
	<b>Note</b>	<b>KES</b>	<b>KES</b>
<b>Cash and cash equivalents at the beginning of the year.</b>	<b>12/13</b>	<b>37,152,327</b>	<b>-</b>
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Government grants and subsidies	6	36,260,000	36,800,000
Rendering of services	7	58,227,457	19,072,103
		<b>94,487,457</b>	<b>55,872,103</b>
<b>Payments</b>			
Employees Costs	8	11,668,135	3,458,012
Repairs and Maintenance	10	121,650	-
General Expense	11	4,764,518	31,946
<b>Net cash flows from operating activities</b>		<b>16,554,303</b>	<b>52,382,145</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant, equipment and intangible assets	14	3,903,950	-
Decrease in non-current receivables		0	-
<b>Net cash flows used in investing activities</b>		<b>(3,903,950)</b>	<b>-</b>
<b>Cash flows from financing activities</b>			
<b>Net cash flows used in financing activities</b>		<b>-</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>111,181,531</b>	<b>52,382,145</b>
<b>Cash and Cash equivalent at end of the year.</b>	<b>12/13</b>	<b>111,181,531</b>	<b>52,382,145</b>

**Inter Mines**  
**Annual Reports and Financial Statements**  
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**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**FOR THE YEAR ENDED 30 JUNE 2019**

	Original Budget	Adjustments	Final Budget	Actual	Performance Difference
	KES	KES	KES	KES	
<b>Revenue</b>					
Veterinary Medicines Dossier / Products Registration Fees.	1,492,868	-	1,492,868	8,002,164	6,509,296
Veterinary Medicines Good Manufacturing Practice Fees (foreign site)	883,416	-	883,416	6,062,800	5,179,384
Veterinary Medicines Good Manufacturing Practice Fees (local site)	87,336	-	87,336	2,000,121	1,912,785
Veterinary Medicines Wholesale Dealers Premises Licence Fees	430,204	-	430,204	480,315	50,111
Veterinary Medicines Wholesale Premises Inspection Fees	45,852	-	45,852	1,240,000	1,194,148
Veterinary Medicines Retail Pharmacy Licence Fees	332,972	-	332,972	2,084,000	1,751,028
Veterinary Medicines Retail Pharmacy Inspection Fees	72,052	-	72,052	16,306,668	16,234,616
Veterinary Medicines Import Verification Fees	2,825,560	-	2,825,560	345,000	-2,480,560
Veterinary Medicines Import Permit Fees	65,164	-	65,164	20,516,276	20,451,112
Veterinary Medicines Products Retention Fees	4,340,052	-	4,340,052	449,798	-3,890,254
Products Appeal	6,620	-	6,620	360,000	353,380
Manufacturing Licence	52,400	-	52,400	350,000	297,600
Products Advertisement	65,504	-	65,504	30,315	-35,189
Grant	37,000,000	-	37,000,000	36,260,000	-740,000
Total income	47,700,000	-	47,700,000	94,487,457	46,787,457
<b>Expenses</b>					
Basic Salary	3,000,000	-	3,000,000	0	-3,000,000
Basic wages- Temporary employees	400,000	-	400,000	0	-400,000
House Allowances	1,200,000	-	1,200,000	0	-1,200,000
Commuter/Transport Allowances	500,000	-	500,000	0	-500,000
Acting/Other Remunerative Allowances	3,000,000	-	3,000,000	0	-3,000,000
Other Remunerative benefits, specify: Leave, Medical, Holliday, End of year Staff Gifts ,etc	100,000	-	100,000	0	-100,000
Boards, Committees -sitting allowances, transport	3,000,000	-	3,000,000	2,532,203	-467,797
Conferences and Seminars- DSAs, transport etc	2,100,000	-	2,100,000	1,359,697	-740,303
Hospitality -Catering Services (receptions), Accommodation, Gifts, Food and Drinks	500,000	-	500,000	460,930	-39,070

**Vivaradic Directorate (D)**  
**Annual Reports and Financial Statements**  
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Outsourced Legal Services	900,000	-	900,000	12,000	-888,000
Consultancies, Specify each Consultancy ---capacity building	300,000	-	300,000	202,040	-97,960
Other Outsourced Services-laboratory analysis of samples, disposal of lab samples and counterfeit medicines etc	100,000	-	100,000	0	-100,000
Medical Insurances	1,000,000	-	1,000,000	21,858	-978,142
Motor vehicles insurances	600,000	-	600,000	409,300	-190,700
Foreign Travel and Subsistence, and other transportation costs- inspections, good manufacturing audits	700,000	-	700,000	511,517	-188,483
Domestic Travel and Subsistence, and Other Transportation Costs- inspections, licensing, surveillance, good manufacturing audits etc	9,794,000	-	9,794,000	8,602,557	-1,191,443
Membership Fees, Dues and Subscriptions to Professional and Trade Bodies	200,000	-	200,000	131,100	-68,900
Motor Vehicle Operations	400,000	-	400,000	0	-400,000
Office and general supplies and services	440,000	-	440,000	158,755	-281,245
Communication, Supplies and Services	1,111,000	-	1,111,000	324,000	-787,000
Utilities Supplies and Services	170,000	-	170,000	0	-170,000
Printing, Advertising and Information Supplies and Services	1,600,000	-	1,600,000	17,990	-1,582,010
Office rents and rates	2,740,000	-	2,740,000	1,098,706	-1,641,294
Specialised Materials and Supplies	385,000	-	385,000	0	-385,000
Fuel Oil and Lubricants	1,000,000	-	1,000,000	15,000	-985,000
Training Expenses	400,000	-	400,000	400,000	0
Corporate Social Responsibility	300,000	-	300,000	175,000	-125,000
Buildings Repair	100,000	-	100,000	0	-100,000
Motor Vehicles/Cycles Repair	500,000	-	500,000	121,650	-378,350
Computers and Other Office Equipment Repair	160,000	-	160,000	0	-160,000
I T. Equipment	2,000,000	-	2,000,000	1,709,718	-290,282
Furniture and Equipment	2,400,000	-	2,400,000	2,194,232	-205,768
Purchase of Motor Vehicle	1,000,000	-	1,000,000	0	-1,000,000
Software Acquisition	6,000,000	-	6,000,000	0	-6,000,000
Total expenditure	48,100,000	-	48,100,000	20,458,253	-27,641,747
Surplus for the period	-400,000	-	-400,000	74,029,204	74,429,204

**Veterinary Medicines Directorate  
Annual Reports and Financial Statements  
For the year ended June 30, 2018**

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**NOTES TO THE FINANCIAL STATEMENTS**

**1. GENERAL INFORMATION**

Veterinary Medicine Directorate is established by and derives its authority and accountability from Veterinary Surgeons and Veterinary Paraprofessionals, Act CAP 366, Act. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is as outlined in earlier pages.

**2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

The financial statements have been prepared on a historical cost basis. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgment in the process of applying the entity's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the entity.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, the Veterinary Surgeons and Veterinary Paraprofessionals Act and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

**3. ADOPTION OF NEW AND REVISED STANDARDS**

**i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2019**

<b>Standard</b>	<b>Impact</b>
<b>IPSAS 40:</b> Public Sector Combinations	<b>Applicable: 1<sup>st</sup> January 2019</b> The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only). Business combinations and combinations arising from non-exchange transactions are covered purely under Public Sector combinations as amalgamations.

**Veterinary Medicines Directorate  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**3 ADOPTION OF NEW AND REVISED STANDARDS (Continued)**

**ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019**

<b>Standard</b>	<b>Effective date and impact:</b>
<p><b>IPSAS 41:</b> Financial Instruments</p>	<p><b>Applicable: 1<sup>st</sup> January 2022:</b> The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> <li>• Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held;</li> <li>• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li> <li>• Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.</li> </ul>
<p><b>IPSAS 42:</b> Social Benefits</p>	<p><b>Applicable: 1<sup>st</sup> January 2022</b> The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:</p> <ol style="list-style-type: none"> <li>(a) The nature of such social benefits provided by the entity;</li> <li>(b) The key features of the operation of those social benefit schemes; and</li> <li>(c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.</li> </ol>

**iii. Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2019.

**Veterinary Medicines Directorate  
Annual Reports and Financial Statements  
For the year ended June 30, 2018**

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a) Revenue recognition**

**i) Revenue from non-exchange transactions**

**Fees, taxes and fines**

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

**Transfers from other government entities**

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds

**Veterinary Medicines Directorate  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**a) Revenue recognition (Continued)**

**ii) Revenue from exchange transactions**

*Rendering of services*

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

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

**b) Budget information**

The original budget for FY 2018-2019 was approved by the National Assembly. There were no any revisions or additional appropriations made to the approved budget.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented in the financial statements.

**Veterinary Medicines Directorate  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**a) Property, plant and equipment**

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

**b) Nature and purpose of reserves**

The Entity creates and maintains reserves in terms of specific requirements.

**c) Changes in accounting policies and estimates**

The Entity recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

**d) Foreign currency transactions**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction.

**e) Borrowing costs**

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment.

Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

**f) Related parties**

The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the council members and the CEO. The parent ministry is also considered as a related party.

**Veterinary Medicines Directorate  
Annual Reports and Financial Statements  
For the year ended June 30, 2018**

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**c) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the National Bank of Kenya at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**d) Comparative figures**

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

**e) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2019.

**5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of the Entity's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**Estimates and assumptions**

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

**Veterinary Medicines Directorate  
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**5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY  
(Continued)**

**Provisions**

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

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

**6 TRANSFERS FROM OTHER GOVERNMENTS**

**a) TRANSFERS FROM MINISTRIES, DEPARTMENTS AND AGENCIES**

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income KShs	Amount deferred under deferred income KShs	Amount recognised in capital fund.	Total grant income during the year	2018-2019
			KShs	KShs	KShs
State Department of Livestock	36,260,000	-	-	36,260,000	<b>36,260,000</b>
Ministry	-	-	-	-	-
<b>Total</b>	<b>36,260,000</b>	<b>-</b>	<b>-</b>	<b>36,260,000</b>	<b>36,260,000</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**7 RENDERING OF SERVICES**

Description	2018-2019 KShs	2017-2018 KShs
Veterinary Medicines Dossier / Products Registration Fees.	8,002,164	3,628,665.00
Veterinary Medicines Good Manufacturing Practice Fees (foreign site)	6,062,800	1,232,800.00
Veterinary Medicines Good Manufacturing Practice Fees (local site)	2,000,121	200,000
Veterinary Medicines Wholesale Dealers Premises Licence Fees	480,315	690,000.00
Veterinary Medicines Wholesale Premises Inspection Fees	1,240,000	240,000
Veterinary Medicines Retail Pharmacy Licence Fees	2,084,000	300,000
Veterinary Medicines Retail Pharmacy Inspection Fees	16,306,668	7,101,492
Veterinary Medicines Import Verification Fees	345,000	134,042
Veterinary Medicines Import Permit Fees	20,516,276	-
Veterinary Medicines Products Retention Fees	449,798	-
Products Appeal	360,000	-
Manufacturing License	350,000	-
Products Advertisement	30,315	5,545,104
<b>Total revenue from the rendering of services</b>	<b>58,227,457</b>	<b>19,072,103</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**8 EMPLOYEE COSTS.**

	2018-2019	2017-2018
	KShs	KShs
Salaries and wages		-
Employee related costs - contributions to pensions and medical aids	21,858	-
Travel, motor car, accommodation, subsistence and other allowances	8,602,557	3,458,012
Boards, Committees -sitting allowances, transport	2,532,203	-
Foreign Travel and Subsistence, and other transportation costs- inspections, good manufacturing audits	511,517	-
Performance and other bonuses		-
Social contributions		-
Expenditure recharged to capital projects		
<b>Employee costs</b>	<b>11,668,135</b>	<b>3,458,012</b>

**9 DEPRECIATION AND AMORTIZATION EXPENSE**

Description	2017-2018	2016-2017
	KShs	KShs
Property, plant and equipment	3,697,382	-
Intangible assets	-	-
Investment property carried at cost	-	-
<b>Total depreciation and amortization</b>	<b>3,697,382</b>	<b>-</b>

**10 REPAIR AND MAINTENANCE.**

Description	2018-2019	2017-2018
	KShs	KShs
Property		-
Investment property – earning rentals		-
Equipment and machinery		-
Vehicles	121,650	57,428
Furniture and fittings		-
Computers and accessories		-
Other		-
<b>Total repairs and maintenance</b>	<b>121,650</b>	<b>57,428</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**11 GENERAL EXPENSES**

Description	2018-2019	2017-2018
	KShs	KShs
Advertising		-
Admin fees		-
Audit fees		-
Conferences and delegations	1,359,697	151,790.00
Membership Fees, Dues and Subscriptions to Professional and Trade Bodies	131,100	-
Consumables		-
Electricity		-
Fuel and oil	15,000	3,012,500.00
Insurance	409,300	-
Legal expenses	12,000	-
Licenses and permits		-
Office and general supplies and services	158,755	-
Communication, Supplies and Services	324,000	-
Postage		-
Printing and stationery	17,990	365,000.00
Hire charges		-
Rental	1,098,706	31,946.40
Security costs		-
Hospitality -Catering Services (receptions), Accommodation, Gifts, Food and Drinks	460,930	-
Skills development levies		-
Consultancies, Specify each Consultancy ---capacity building	202,040	-
Telecommunication		-
Training	400,000	-
Corporate Social Responsibility	175,000	2,340.06
<b>Total general expenses</b>	<b>4,764,518</b>	<b>3,563,576</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**12 CASH AND CASH EQUIVALENTS**

Description	2018-2019	2017-2018
	KShs	KShs
Current account	111,181,531	37,152,327
On - call deposits		-
Fixed deposits account		-
Staff car loan/ mortgage		-
Others(specify)		-
<b>Total cash and cash equivalents</b>	<b>111,181,531</b>	<b>37,152,327</b>

**13 DETAILED ANALYSIS OF THE CASH AND CASH EQUIVALENTS**

Financial institution	Account number	KShs	KShs
<b>a) Current account</b>			
National Bank Of Kenya	01071203347300	72,872,791	31,679,691
National Bank Of Kenya	02071203347300	38,308,740	5,472,636
<b>Sub- total</b>		<b>111,181,531</b>	<b>37,152,327</b>
<b>b) On - call deposits</b>			
Kenya Commercial bank		-	-
Equity Bank - etc		-	-
<b>Sub- total</b>		<b>0</b>	<b>0</b>
<b>c) Fixed deposits account</b>			
Kenya Commercial bank		-	-
Bank B		-	-
<b>Sub- total</b>		<b>0</b>	<b>0</b>
<b>d) Staff car loan/ mortgage</b>			
Kenya Commercial bank		-	-
Bank B		-	-
<b>Sub- total</b>		<b>0</b>	<b>0</b>
<b>e) Others(specify)</b>			
Cash in transit		-	-
cash in hand		-	-
M pesa		-	-
<b>Sub- total</b>		<b>0</b>	<b>0</b>
<b>Grand total</b>		<b>111,181,531</b>	<b>37,152,327</b>

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**14. Property, plant and equipment**

Property, plant and equipment	KES	Motor Vehicle 25%	Furniture & Equipment 12.5%	I.T. Equipment 30%	KES	KES	KES
<b>Cost</b>							
<b>At October 2018</b>	-	11,640,760	0	0	0	0	11,640,760
Additions	-	0	2,194,232	1,709,718	0	0	3,903,950
Disposals	(-)	0	0	0	0	0	0
Transfer/adjustments	(-)	0	0	0	0	0	0
<b>At end of the quarter</b>	-	11,640,760	2,194,232	1,709,718	0	0	15,544,710
<b>Depreciation and impairment</b>							
At 1 April 2019	(-)	-2,182,641	0	0	0	0	-2,182,641
Depreciation	(-)	-727,547	0	0	0	0	-727,547
Impairment	(-)	-	0	0	0	0	0
<b>At 30 June 2019</b>	-	-2,910,188	0	0	0	0	-2,910,188
<b>Net book values</b>							
<b>At end of quarter</b>	-	8,730,572	2,194,232	1,709,718	0	0	12,634,522

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**15 FINANCIAL RISK MANAGEMENT**

The entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The entity's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The entity does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The entity's financial risk management objectives and policies are detailed below:

**(i) Credit risk**

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the entity's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows.

**(ii) Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the entity under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**FINANCIAL RISK MANAGEMENT (Continued)**

**(iii) Market risk**

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The entity's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

a) Foreign currency risk

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

b) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The entity's interest rate risk arises from bank deposits. This exposes the entity to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the entity's deposits.

*Management of interest rate risk*

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

*Sensitivity analysis*

The entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**FINANCIAL RISK MANAGEMENT (Continued)**

**iv) Capital Risk Management**

The objective of the entity's capital risk management is to safeguard the Board's ability to continue as a going concern. The entity capital structure comprises of the following funds:

**16 RELATED PARTY BALANCES**

**Nature of related party relationships**

Entities and other parties related to the entity include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

**Government of Kenya**

The Government of Kenya is the principal shareholder of the entity. It has provided full guarantees to all long-term lenders of the entity, both domestic and external. Other related parties include:

- i) The National Government;
- ii) The Ministry of Agriculture Livestock Fisheries and Irrigation.

**17 EVENTS AFTER THE REPORTING PERIOD**

There were no material adjusting and non- adjusting events after the reporting period.

**18 ULTIMATE AND HOLDING ENTITY**

The entity is a State Corporation under the Ministry of Agriculture Livestock Fisheries and Irrigation. Its ultimate parent is the Government of Kenya.

**19 Currency**

The financial statements are presented and rounded off to the nearest Kenya Shillings (Kshs).

VETERINARY MEDICINES DIRECTORATE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019


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 (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
VMD/2017/18 (06)	Difference between certificate of balance and bank statement as at 30 <sup>th</sup> June 2018	We are in a process of reconciliation between balance certificate and bank statement.	Dr Naphtal Mwanziki Ag CEO , and Henry Momata Accountant	Not Resolved	Within a month
“	Budget performance and controls	It was newly created Directorate	Dr Naphtal Mwanziki AgCEO , and Henry Momata Accountant	Resolved	-
“	Asset register Missing	It was newly created Directorate	Henry Momata Accountant	Not Resolved	Within a month
“	Non availability of key policy manuals and strategic plan	It was newly created Directorate	Dr Naphtal Mwanziki AgCEO	Resolved	-

**Guidance Notes:**

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

Sign.....  
  
 Ag. C.E.O  
 Dr Naphtal Mwanziki

Date.....24.09.2019.....

