

# **REPORT OF THE AUDITOR-GENERAL ON STATE DEPARTMENT FOR FISHERIES, AQUACULTURE AND THE BLUE ECONOMY FOR THE YEAR ENDED 30 JUNE, 2019**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of State Department for Fisheries, Aquaculture and the Blue Economy set out on pages 4 to 23, which comprise the statement of assets and liabilities as at 30 June, 2019 and the statement of receipts and payments, statement of cash flows, summary statement of appropriation – recurrent and development combined 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 State Department for Fisheries, Aquaculture and the Blue Economy 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 (Cash Basis) and comply with the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Financial Statements Inaccuracies**

##### **1.1 Cash and Cash Equivalent**

The statement of assets and liabilities reflects cash and cash equivalents balances of Kshs.62,171,105 made up of bank balances of Kshs.61,868,827 held in four (4) bank accounts and cash in hand balances of Kshs.302,278 as shown under Note 9A and 9B to the financial statements. However, the revised IFMIS Trial Balance reflects credit balances for recurrent, development and deposit bank accounts of Kshs.264,641,258, Kshs.634,330,805 and Kshs.89,130,208 respectively. Further, the Central Bank of Kenya Account No. 30861002 reflects an amount of Kshs.28,957,192 while the same has not been reflected in the IFMIS Trial Balance. In addition, cash in hand balance of Kshs.302,278 differ with the IFMIS Trial Balance figure of Kshs.1,637,691,980 by an amount of Kshs.1,637,389,702.00 as summarized below;

	<b>Revised Financial Statements</b>	<b>Revised IFMIS Trial Balance</b>	<b>Variance</b>
<b>Account</b>	<b>Kshs.</b>	<b>Kshs.</b>	<b>Kshs.</b>
Recurrent Bank Balance	61,801	(264,579,457)	264,641,258
Development Bank Balance	942,373	(634,330,805)	635,273,178

Deposit Bank Balance	31,907,461	(89,130,208)	121,037,669
Central Bank of Kenya Account No.30861002	28,957,192	0	28,957,192
<b>Total bank balances</b>	<b>61,868,827</b>		
Cash in hand	302,278	(1,637,691,980)	1,637,389,702

The variances have not been reconciled casting doubt on the accuracy and completeness of cash and cash equivalents balance of Kshs.62,171,105 as at 30 June, 2019.

## 1.2 Other Inaccuracies between the Financial Statements and the Trial Balance

Further comparison between the financial statements and the supporting trial balance revealed variances of Kshs.615,399,024 which were not explained or reconciled as analysed below; -

Details	Financial Statements Kshs.	IFMIS Trial Balance Kshs.	Variance Kshs.
System Required Liabilities	0	(8,029,677)	8,029,677
Cash Clearing Account	0	(607,369,347)	607,369,347
<b>Total Variance</b>	<b>0</b>	<b>(615,399,024)</b>	<b>615,399,024</b>

In the circumstances, the accuracy of the financial statements for the year ended 30 June, 2019, could not therefore be confirmed.

## 2. Unsupported expenditure

The statement of receipts and payments reflects an amount of Kshs.641,394,950 under use of goods and services. As disclosed under Note 4 to the financial statements, the amount includes Kshs.11,295,260 relating to rentals of produced assets. The expenditure of Kshs.11,295,260 relates to the amount paid for office space at 13<sup>th</sup> Floor of the National Hospital Insurance Fund (NHIF) Building for the Kenya Fisheries Service (KFS) for the financial year 2018/2019 and the last two quarters of the financial year 2017/2018.

However, out of the total expenditure of Kshs.11,295,260, only an amount of Kshs.4,428,147 relating to the occupancy period for two quarters effective from 01 February to 30 April, 2018 and 01 May to 31 July, 2018 were supported with documentary evidence of cash book entries and payment vouchers maintained by the State Department for Fisheries, Aquaculture and the Blue Economy. The remaining amount of Kshs.6,867,113, though traceable from the IFMIS records was not supported with documentary evidence such as payment vouchers.

An audit verification exercise carried out on 25 November, 2019 revealed that the office space remained unoccupied for twenty-one months from 01 February, 2018 to date and only the boardroom was found to be in use. Although the State Department has explained that the payment was made to reserve the office space and delay in occupancy was occasioned by unavailability of budget to procure furniture, this explanation is not satisfactory in regard to the time and expenditure incurred. This contravenes Regulation 43(d) of Public Finance Management (National Government) Regulations, 2015 which requires an Accounting Officer to manage, control and ensure that policies are carried out efficiently and wastage of public funds is eliminated.

Consequently, the propriety of the expenditure of Kshs.11,295,260 incurred on rentals of produced assets. could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the State Department for Fisheries, Aquaculture and the Blue Economy 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 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**

### **1.0 Pending Accounts Payable**

As disclosed in Note 15.1 to the financial statements the State Department had pending bills totalling Kshs.266,319,936 as at 30 June, 2019 which were not settled during the year under review but instead were carried forward to 2019/2020 financial year. Had these bills been settled and the expenditure charged to the relevant items of account for 2018/2019, the statement of receipts and payments for the year ended 30 June, 2019 would have reflected a deficit of Kshs.241,404,953 instead of the surplus of Kshs.24,914,983 now shown.

### **2.0 Budgetary Performance**

During the year under review, the State Department for Fisheries, Aquaculture and the Blue Economy had actual receipts totaling to Kshs.1,363,336,563 against estimated receipts of Kshs. Kshs.2,270,260,146 resulting in a shortfall of Kshs. 906,923,583 or 40%. Further, actual expenditure for the year amounted to Kshs.1,338,421,580 against a budget of Kshs.2,200,260,146 resulting in an under expenditure of Kshs.861,838,566 or 39%.

Management has attributed the under collection, mainly under proceeds from foreign borrowings, to delay in submission of payment certificate by the project consultants while the underutilization was caused by delay in uploading development budget to the Integrated Financial Management System (IFMIS). The State Department may have failed to achieve its planned development and operational objectives impacting negatively on service delivery to the citizens of Kenya.

## 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 matters 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**

#### **1. Procurement of Goods from Unqualified Firms**

The statement of receipts and payments reflects an amount of Kshs.641,394,950 under use of goods and services, which includes expenditure relating to routine maintenance services of other assets of Kshs.4,593,482 and specialized materials and services of Kshs.85,445,298 as disclosed in Note 4 to the financial statements. An examination of payment records at the Mombasa Office revealed that a firm was paid Kshs.276,312 for maintenance services that involved fixing of floor tiles and repair of a submersible pump. The firm presented a Tax Compliance Certificate (TCC) number KRANER8309392017 dated 20 September, 2017 whose expiry period was indicated as 22 June, 2019. However, a verification from the KRA website TCC checker shows that the certificate had expired on 19 September, 2018, implying that the compliance certificate was a forgery.

In addition, procurement and payment records show that another firm was issued with a Local Purchase Order number 2466456 dated 29 March, 2019 and paid Kshs.1,130,000 for supply of fishing gears at the Mombasa Office. However, the firm provided an invalid Tax Compliance Certificate number KRAMSN5900842017 which had expired on 06 April, 2018.

These procurements, therefore, contravened Section 55(1)(f) of the Public Procurement and Asset Disposal Act, 2015 which stipulates that a person is eligible to bid for a contract in procurement, only if the person has fulfilled her/his tax obligations.

#### **2. Failure to Observe Two Third (2/3) Basic Salary Rule**

The statement of receipts and payments reflects an amount of Kshs.266,783,423 under compensation of employees. As disclosed under Note 3 to the financial statements, the amount includes Kshs.160,955,966 relating to basic salaries for permanent employees. An examination of the payroll from July 2018 to June 2019 of the State Department

revealed that fourteen (14) officers were paid net salary totalling Kshs.424,512 while a third (1/3) of their basic salary was totalling Kshs.526,073, resulting in an over deduction of Kshs.101,561. The net salaries were, therefore, less than a third (1/3) of their basic salary contrary to Section C.1(3) of the Public Service Commission - Human Resource Policies and Procedure Manual, which requires public officers not to over-commit their salaries beyond two thirds (2/3) of their basic salaries.

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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

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 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.

### **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 (Cash 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 overall governance.

In preparing the financial statements, Management is responsible for assessing the ability of State Department for Fisheries, Aquaculture and the Blue Economy 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 State Department 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 financial reporting process, reviewing the effectiveness of how the entity 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 ability of State Department for Fisheries, Aquaculture and the Blue Economy 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 State Department to cease sustaining 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 State Department for Fisheries, Aquaculture and the Blue Economy 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**

**06 October, 2020**