REPORT OF THE AUDITOR-GENERAL ON KENYA FOREST SERVICE FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Kenya Forest Service set out on pages 1 to 45, which comprise the statement of financial assets and liabilities as at 30 June 2017, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Kenya Forest Service as at 30 June 2017, 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 Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1. Accuracy and Completeness of the Financial Statements

1.1 The statement of financial performance reflects a surplus of Kshs.516,152,411 while the statement of comparison of budget and actual amounts reflects a balance of Kshs.655,298,513 as at 30 June 2017 resulting in an unreconciled and unexplained difference of Kshs.139,146,102. Further, there was no reconciliation of actual amounts on a comparable basis and actual amounts in the financial statements as required by IPSAS 24.

1.2 The statement of cash flows reflects a figure of Kshs.294,550,098 (Note 15) for depreciation, while Note 15 reflects a figure of Kshs.296,533,111 resulting in unreconciled difference of Kshs.1,983,013.

1.3 The Management did not provide supporting schedules for balances of the five listed accounts from where the balances reflected in the financial statements were drawn;

No	Particulars	Note No.	Amount Kshs.
1	Refundable deposits from customers	28	13,209,574
2	provisions utilized	29	33,035,637
3	Employee benefits obligations	30	22,381,722

4	Payments received in advance	31	2,709,233
5	Withheld taxes	32	714,131

1.4 The Management presented financial statements to the Auditor-General for audit within 3 months after the end of the financial year to which they relate to. However, during audit exercise, Kenya Forest Service revised and presented for audit team unsigned financial statements. In addition, financial statements submitted confirmed that the Service did not fully disclose all the prior year audit matters as required by the IPSAS.

Consequently, it has not been possible to confirm the accuracy of the financial statements for the year ended 30 June 2017.

2. Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.2,414,669,771 as at 30 June 2017. However, long outstanding receipts in the cash book not in the bank statements for KCB account No. 1106770021 amounting to Kshs.10,824,086 were noted with some dating back to September 2014.

Further, KCB account No. 1106928652, reported payments in the cash book not in the bank statement amounting to Ksh.149,052,070.55 as at 30 June 2017. Audit verification carried out did not reveal subsequent clearance of outstanding payments in the cash book.

Under the circumstances, it has not been possible to confirm the accuracy of the cash and cash equivalents balance of Kshs.2,414,669,771 as at 30 June 2017.

3. Plantation

3.1 Omission of Plantation Land

The statement of financial position reflects plantation balance of Kshs.58,112,352,723 as at 30 June 2017. However, the value of the land on which the plantations grow was not separately disclosed under property, plant and equipment or investment property as required by IPSAS 27 which requires biological assets, other than bearer plants, that are physically attached to the land be measured as biological assets separately from the land. In addition, it is not clear whether the plantations have been treated as investment property, or property, plant and equipment or biological assets. Further, it was observed that the Management did not maintain a detailed register showing the plantations land owned by the Service.

Consequently, the value of plantations of Kshs.58,112,352,723 as at 30 June 2017 could not be confirmed as fairly stated.

3.2 Impairment of Plantation

Note 24 to the financial statements reflects impairment to plantations of Kshs.41,786,050 (2016: Kshs.157,489,380) representing a decrease of 73% or Kshs.115,703,330 from the previous year. However, the impairment has not been recognized as a loss in the statement of financial performance for the year ended 30 June 2017 as required by IPSAS 27.

In addition, the service has not disclosed and or explained the basis (method and assumptions) for the impairment amount as well as the categories and distinction of its biological assets as required by IPSAS 26. Again, no disclosure has been made on changes to the carrying amount of the biological assets. It was not clear if the biological assets were disclosed using fair value measurements as required by IPSAS 27.

Consequently, the total impairment value for plantations amounting to Kshs.41,786,050 as at 30 June 2017 could not be confirmed.

4. Property, Plant and Equipment

(i) The financial statements as at 30 June 2017 reflects property, plant and equipment balance of Kshs.1,914,476,198 out of which Kshs.1,023,693,578 relates to the value of buildings owned by the Service in various locations. However, contrary to the requirements of IPSAS 17, the land on which these buildings were erected was not valued and disclosed separately.

(ii) The Kenya Forest Service acquired all the assets of the former forest department including land vide legal notice No.151 of 2008 published in the Kenya Gazette supplement No. 28 of 28 November 2008. However, out of the two hundred sixty-five (265) gazzetted forest blocks owned by the Service with an acreage of 2,585,526.44 Ha, only seventy-seven (77) blocks have title deeds while twenty-five (25) other forest blocks are at an advanced stage of title deed acquisition.

Further, an audit review of land documentation availed confirmed that there were ongoing court cases on land ownership between the Service and private parties. It was noted also that there were illegal encroachments and excisions on forest land in various parts of the country of which a total of 555.9 Ha have been illegally acquired by private parties in Kipkabus and Tingwa.

In addition, there are installations in the forest land that are not formally permitted through a license and are operational and some which were licensed but remained unpaid for.

Consequently, it has not been possible to confirm the accuracy, completeness and ownership of property, plant and equipment balance of Kshs.1,914,476,198 reflected in the financial statements.

5. Heritage Assets

Note 23 to the financial statements indicates that the Service has two hundred and sixty-five (265) gazzetted forest blocks some of which form part of conservation areas and nature reserves including both the land, the forest and allied forest resources therein and are such treated as heritage assets as per IPSAS 17. However, the Service did not disclose the specific forest blocks recognized as heritage assets as required by paragraph 9 and 12 of IPSAS 17.

Consequently, the accuracy and completeness of Heritage Assets in the financial statements as at 30 June 2017 cannot be ascertained.

6. Receivables from Exchange Transactions

6.1 Inaccurate Disclosure and Presentation of Line Items

Note 21 to the financial statements, states that receivables from non-exchange transactions 772,149,957 also includes imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year 140,673,505. However, these items have been included as part of revenue from exchange transactions. Further, accounts receivable ledgers were not provided due to inadequacies of Oracle Financial Management System where some previous available reports became obsolete as alleged by Management.

6.2 Long Outstanding Receivables

As similarly reported in 2015/2016 financial year, the receivables from exchange transactions balance of Kshs.772,550,415 (2016 Kshs.496,370,179) as at 30 June 2017 include long outstanding debts of Kshs.159,567,842 out of which debts amounting to Kshs.75,024,727 are largely owed by Government Agencies and Media houses whose transmitters are located within Kenya Forest Services owned sites. The debtors have ignored or refused to pay for the license charges alleging that they make payments to Kenya Broadcasting Corporation. In addition, a review of debtors aging analysis confirmed that some debtors have been outstanding for several years, some since 2010. Further, the receivables balance has increased by Kshs.276,180,236 implying inadequate credit management mechanisms.

In consequence, it has not been possible to confirm the recoverability of the receivables from exchange transactions balance of Kshs.772,550,415 as at 30 June 2017.

7. Trade and Other Payables

The statement of financial position as at 30 June 2017 reported trade and other payables from exchange transactions of Kshs.98,755,113. However, aging analysis, ledgers and documents in support of these payables were not availed for audit review due to inadequacies of Oracle FMS where some previous available reports were alleged to have become obsolete. Further, the nature of the following disclosures in Note 27 to financial statements was not clear:

Particulars	**Amount in Kshs.**
Employee Liability Account	873,800
Inventory AP Account	8,549,852
Supplies Liability Account	42,934,781
Expense AP Account	37,982,373
Total	**90,340,806**

In view of the foregoing, it has not been possible to confirm the existence and accuracy of the trade and other payables balance of Kshs.98,755,113 as at 30 June 2017.

8. Inappropriate Recognition of Revenue from Non-Exchange Transactions

The statement of financial performance for the year ended 30 June 2017 reflects revenue from non-exchange transactions of Kshs.2,509,963,563 and surplus for the year of Kshs.516,152,411. The revenue amount of Kshs.2,509,963,563 includes Kshs.194,148,951 reflected as transfers from other governments in Note 7 to the financial statements. Audit review noted that the receipts had related conditions attached that would give rise to a liability to repay the amounts and therefore deferred income would be recognized as required by IPSAS 23. However, the Management has not recognized any deferred income contrary to IPSAS 23, significant accounting policy (a) and Note 7 to the financial statements.

In addition, the statement of changes in net assets for the year ended 30 June 2017 reflects an adjustment of Kshs.1,786,518 made to the revenue reserves which has been described as refunds to different donors after the closure of specific projects in the financial year 2015/2016. Therefore, the donor grants have not been recognized as income over the periods necessary to match them with the related assets which they are intended to compensate on a systematic basis.

In the circumstances, the accuracy of the revenue from non-exchange transactions balance of Kshs.2,509,963,563 and the surplus for the year of Kshs.516, 152,411 for the year ended 30 June 2017 cannot be confirmed.

9. Unsupported Appropriations in Aid (AIA)

Disclosed under Note 9 to the financial statements are proceeds from AIA amounting to Kshs.4,021,549,302. However, there was;

(i) An unexplained variance between AIA reported at KFS and AIA reported at the Ministry amounting to Kshs.107,679,919 as at 30 June 2017.

(ii) No budget for each compartment or acreage, or an estimate of harvests and revenue to be generated from each compartment or acreage.

(iii) No revenue target reports made available for audit, although KFS provided revenue collected per county.

(iv) unexplained huge drops and increments in the various classes of revenue.

Consequently, it has not been possible to confirm the accuracy and completeness of Appropriation in Aid balance of Kshs.4,021,549,302 for the year ended 30 June 2017.

10. Unaccounted for Plantation Harvesting Revenue

The Kenya Forest Service receives the bulk of its appropriation in aid from its commercial plantations; this arises from royalties awarded to the saw millers from the chief conservator of forests with instructions that no harvesting should take place on any allocations unless the royalty is paid for in full and within 30 days. However, this practice is in contrast to the requirements of the Public Procurement and Asset Disposal Act of 2015 Part IX Section 92 and the previous practice of bidding for forest materials which are deemed to be goods and services as provided.

Further, review of plantation management in Meru Forest confirmed that thirty (30) saw millers were awarded to remove forest materials within the forest compartments and blocks during the financial year under review. However, it was noted that a substantial number of the saw millers. (see attached schedule) had not paid the royalty in full amounting to Kshs.126,081,805 yet had harvested the forest material. In addition, some of the saw millers' names could also not be traced in the revenue ledgers submitted for audit. Consequently, the revenue due was not accounted for.

11. Employee Costs

11.1 Unexplained Employees Costs Variance of Kshs.30,663,010

Note 12 to the financial statements reflects employee costs of Kshs.4,302,538,881 for the year ended 30 June 2017. This represents an increase of Kshs.440,118,322 from the previous year figure of Kshs.3,862,420,559. However, it was noted that the total number of employees reduced by 108 employees from 5,136 for the year ended 30 June 2016 to 5,028 for the year ended 30 June 2017. The significant increase in employee cost despite the reduction in the number of employees has not been explained. In addition, the ledger schedule availed for audit review reflects a figure of Kshs.4,333,201,891 while the financial statements reflects a figure of Kshs.4,302,538,881 resulting in an unreconciled difference of Kshs.30,663,010.

11.2 Gratuity Understated and or unreported

Employees cost reports gratuity of Kshs.12,357,630 in the prior year and nil balance on the current year. This indicates 100% change on staff gratuity. No explanation was provided to support the huge drop on gratuity payments during the year. Further, there were current staff on contract entitled to gratuity payments. However, no provision for gratuity was provided as short term liability that is due to be settled within 12 months after the reporting date contrary to the requirements of IPSAS 1.

11.3 Wrongly Classified and Charged Employee Costs

Note 19 to financial statements reflects general expenses of Kshs.1,382,815,810 as at 30 June 2017 which includes payments for casual labour of Kshs.269,373,121, staff welfare costs of Kshs.20,618,924 and, staff uniform and clothing of Kshs.40,384,490 all totaling to Kshs.330,376,535. These amounts have wrongly been classified as general expenses instead of employee costs.

11.4 Unsupported Instructors Allowance

Included in the employee costs of Kshs.4,302,538,881 is an amount of Kshs.3,518,244 relating to instructor's allowances. However, no documented and approved rates and work done were provided for audit review to ascertain the validity of the expenditure.

Consequently, it has not been possible to confirm the accuracy and completeness of employee costs balance of Kshs.4,302,538,881 as at 30 June 2017.

12. Unsupported and Incomplete Casual Labour Expenditure

Note 19 to the financial statements reflects general expenses of Kshs.1,382,815,810 which includes payments for casual labuor of Kshs.269,373,121 representing a significant increase of 199% from 2015/2016 balance of Kshs.122,815,899. Audit review of ledgers provided disclosed the casual labour balance of Kshs.269,373,121 excludes casual wage costs from the roads and building units. It was also noted that the casual wages were split into several vouchers when payments were being made. However, no explanation was provided for the split payments nor the muster rolls for work done. There appears to be no proper structures in place by the Service to control the rapid increase in the expenditure.

In consequence, the completeness, validity and accuracy of the casual labour costs of Kshs.269,373,121 could not be ascertained as at 30 June 2017.

13. Aircraft Operations Cost

Kenya Forest Service acquired a caravan aircraft and helicopter to enhance its accessibility to forested areas and other transport related needs. During the year under review, the Service incurred Aircraft operating costs of Kshs.10,053,052 maintenance of aircraft costs of Kshs.22,160,887 and fueling cost of Kshs.7,884,154 all totaling Kshs.40,098,093. Further, the aircraft and helicopter were leased out for private functions and earned the Service Kshs.15,503,509. However, no travel logs of the aircraft and helicopter were provided to indicate the journeys the two had been used for and the rates applied in order to verify the revenue generated.

Consequently, it was not possible to determine whether the aircrafts were being utilized for official duties, the completeness of the revenue earned of Kshs.15,503,509 and validity of the total aircraft costs of Kshs.40,098,093 for the year ended 30 June 2017.

14. Board Expenses

Note 14 to the financial statements reflects remuneration of director's figure of Kshs.31,903,564. However, Board allowance schedules showing aggregated board member allowances and budget amounts were not provided for audit review.

Included in the remuneration of Board figure of Kshs.31,903,564 is an amount of Kshs.7,694,981 which relates to daily subsistence allowances given to senior management to support non-board activities. The amount has been wrongly charged to the remuneration of board expenses.

Consequently, it has not been possible to confirm the accuracy and completeness of the remuneration of directors' balance of Kshs.31, 903,564 as at 30 June 2017

15. Unsupported Special Operations Expenditure

Note 19 to the financial statements reflects special operations expenditure of Kshs.107,868,181. However, during the year under review, this expenditure was incurred on imprests issued to various District Forest Officers and Regional Commandants for purchase of goods and services and also allowances to forest rangers when undertaking their normal duties. In addition, no report was availed to support special activities handled out of the normal duties relating to forest protection.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Forest Service in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe the audit evidence obtained is sufficient and appropriate to provide a basis for my adverse 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 of the current year. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

I have fulfilled the responsibilities described in the Auditor's Responsibilities for the audit of the financial statements section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

No.	Key Audit Matter	How the Audit Addressed the Key Audit Matter
1.	**Provisions**	
	The statement of financial position reflects provisions for the current year of Kshs.91,899,093 which reduced by Kshs.37,515,637 from Kshs.129,414,730 in the previous year due to an adjustment of Kshs.33,035,636 representing provision of bad debts in previous years but now recovered. We considered this to be a key audit matter since provision involves a lot of judgement. Provisioning is a credit risk management practice that helps an entity to evaluate accounts receivable and to estimate the percentage of bad debt. IPSAS 29 on financial instrument measurement and recognition requires debtor balances significant in size to be tested individually while the other debtor accounts will need to be assessed collectively for impairment. However, the measure of significance is purely a matter of judgment. In KFS provisions were raised and determined by management as an estimate based on the information available. Provisions reported were 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. There is therefore a risk of bad debts are watered down by the existence of newer debts which obviously carry the same credit risk relating to the debtor. This can result in poor working capital management and cash flow issues.	The following audit procedures were performed in response to this matter: Reviewed the KFS finance manual to determine whether the entity has established consistent policies, methodologies, and processes for estimating allowances. • Comparing current year provision level with prior period at lowest level of detail. • Examined the Minutes of the meeting of the board of directors regarding the provisions to be made. • Verified all provisions are made by debiting the statement of financial performance • Checked that the provisions are utilized only for the purpose for which they are created. • Verified that all the provisions are properly disclosed in the financial statements. • Inquiring about provision for doubtful debts utilized during the year and appropriate cutoff procedures.

2.	**Valuation and Revenue from Commercial plantations**	
	Kenya Forest Service maintains commercial tree plantations for sale. The value of public plantation as at 30 June 2017 was Kshs.58,112,352,723 under total area of stocked plantations of 140,000 Ha. We considered this to be a key audit matter since there is public outcry and recent media reports that commercial forest plantations managed by Kenya Forest Service are characterized by poor quality planting materials, delayed re-planting, poor silvicultural and management regime, inefficient harvesting operations, inaccurate forest stocks valuation and disposal process. Significant assumptions made in the estimation of the fair value of the trees in 2017 include: i. The transformation of the un-matured plantations is based on the current age of tree species ii. Cash inflows and outflows accrue evenly throughout the useful life; and iii. 15% of the trees planted will not attain maturity due to natural factors. We also noted public interest on direct allocation process to award forest materials to saw millers which was initiated from 2017. The direct allocation procedure being practiced by KFS is may be prone to corruption and inadequacies. As disclosed in note 9 to the financial statements, revenue from plantations was Kshs.3,595,957,480 which accounted for 52% of the total revenue of Kshs.6,935,374,531. Since there does not exist an active market for arms-length transactions for sale of plantations, it is difficult to estimate the revenue that should be recognized. There is a risk of under-reporting revenue collected.	• The following audit procedures were performed in response to this matter: • Reviewed the forest management plans for selected forests to ensure existence • Evaluated management's judgements and assumptions used in determining benefits/sales expected from forest cover and ensured they are appropriate. • Evaluated inventory of seedlings, location, species, size and age as at 30 June 2017. • Requested for summary of areas/plantation where seedlings were planted during financial year 2016/2017 • Reviewed reports of plantation harvested during financial year 2016/2017 • Obtained a list of saw millers licensed by KFS as at 30 June 2017. • Reviewed the felling plans for selected forest blocks to ensure accuracy. • Reviewed the inventory Computation on volume increment to confirm the volume recorded for the financial year. • Obtained summary of plantation inventory as at 30 June 2017. • Reviewed report of burnt, stolen and depleted plantation • Evaluated how valuation of plantation was arrived at as at 30 June 2017. • Analyzed value of plantation impairment as at 30 June 2017. • Performed detailed testing on a sample of revenue earned to supporting documents.

		• Audit marked verification of KFS plantations and issues raised in the task force regarding various plantation cost centers as a keep in view (KIV) item in 2017/2018 audit.
3.	**Valuation of Forest Land**	
	The Kenya Forest Service acquired all assets of the former forest department vide legal notice No.151 of 2008 published in the Kenya Gazzette Supplement No. 28 of 28th November 2008. Currently the service has 265 gazzetted forest blocks, 77 of which have titles and 25 other blocks totaling 168,725.2 Ha are at an advanced stage of title deed processing. The total acreage of the gazzetted forest blocks is 2,585,516.44 Ha. Due to the non-availability in the active, open and orderly market of gazzetted forest land, it presents a challenge in valuation the land. We considered this to be a key audit matter since the Service uses forest land in its operations. In addition, although the land is not used for commercial purposes (non-cash-generating asset), it generates income through fees and licenses and extraction of minerals. As such, Parliament and the public may need information on the forest land for decision making on the Service's operational capacity and cost of services. Note 23 to the financial statements indicates that management considers some gazzetted forest blocks which form part of conservation areas and nature reserves as heritage assets. According to IPSAS 17, management has to identify an appropriate measurement basis and depreciation method for heritage assets which are highly subjective since they depend on management's best estimates.	• Evaluated the service's listing of all the land ownership and total acreage. • Evaluated the land with title deeds. • Evaluated the land whose title deed processing is at an advanced stage or ongoing. • Reviewed whether consideration of forest and allied forest resources treated as heritage assets is sufficient. • Evaluated the resource capacity of the service with a view to establish if they are able to secure their land.
4.	**Information Technology Systems and Controls**	
	In line with Article 2 of the good governance Charter on creativity and innovation, KFS - Finance department were using the ORACLE (ERP) responsive Ledger software for their day to day duties. The system currently has all Finance modules integrated. KFS also has other IT systems that are not integrated like the GIS, Forest Calc, VIO for monitoring and management of forests and IPPD for the payroll management. From the PPE,	• Our planned audit approach assumed reliance on the IT Control environment and therefore our audit procedures to address the matter included: • Examining the framework of governance over IT controls, access to programs and data

	over kshs.50m has been invested on ICT physical and Intangible assets as at 30 June, 2017. We considered this to be a key audit matter since oracle system could not show related parties or payee details on expenditure, receivables and payables	and IT operations, where required; • Assessing and testing the design and operating effectiveness of the controls over the continued integrity of the systems that were relevant to financial accounting and reporting during the year; • Assessment and testing of the general IT control environment, including IT access and segregation of duties, as well as IT dependent controls within critical business processes; • Carrying out direct tests of certain aspects of the security of the IT systems including access management and segregation of duties; • Re-performing selected automated computations and compared our results with those from the systems and the general ledger and trial balance; and • Testing the significant system interfaces to ensure accuracy and completeness of the data transfer.

Other Matter

1. Public Participation in Kenya Forest Service Budget Implementation

Article 201(a) of the Constitution requires that there should be openness and accountability, including public participation in financial matters. Further, Section 36 (3) (d) of the Public Finance Management Act, 2012 provides for public participation in the budget process. There is no evidence of public participation during budget formulation.

2. Utilization of Information Technology (IT)

The financial statement under review indicates the NBV of Computers and ICT Assets as Kshs.35,205,660 and the value of Intangible Assets as Kshs.16,010,070 all totaling Kshs.51,216,070. Interview with staff members confirmed that KFS was still experiencing inadequate IT infrastructure in terms of suitable systems (Software), ICT literate personnel and appropriate devices. The interview further deduced that there was slow adaptation of ICT services despite having invested over Kshs.51M on computerization. The use of

Geographical Information System (GIS) is still not effective in the surveillance and monitoring of forests in case of activities such as illegal logging, theft of firewood or forest fires. This is because they are not linked to any devices positioned in the forests for prompt surveillance. GIS is therefore not interfaced with the core object of protecting the forest.

3. Procurement Matters

3.1 Procurement and Installation of Asset Tagging, Bar Coding and Management System

The Kenya Forest Service procured services for the installation of asset tagging, bar coding and management system through Tender No.KFS/06/2016-2017 that was advertised on 19 August 2016.Seven bids were received and after evaluation M/S Crystal Africa Consulting Limited was awarded the tender to provide the services at a tender sum of Kshs.5,393,960.00. However, this was not the lowest evaluated bidder. A review of the documents provided revealed that the lowest evaluated bidder was M/s Elrons Limited that had placed a bid of Kshs.3,662,120 and had met the pass mark on evaluation of 75%. It is not clear why the lowest evaluated bidder was not awarded the tender to supply the Services. As a result of the award, Kenya Forest Service lost Kshs1, 731,840.

3.2 Unjustified Cost of Refined Fuels

Kenya Forest Service has a contract for fuel supplies with Total Kenya and Flamex Petroleum Ltd for provision of fuel for motor vehicles, machineries, aircraft and chopper amounting to Kshs.90,405,946. A review of ledgers provided for audit revealed that the Service continues to issue accountable imprest to DFOs and regional Commandants for purchase of fuel for motor vehicles, in complete disregard to the contract between the Service and Total Kenya Ltd.

3.3 Tree Planting

The Service incurred Kshs.94,893,744 on tree planting and tree seedlings during the financial year. However, a review of expenditure revealed that Kshs.94,893,744 was spent on various items such as daily subsistence allowances (DSA), lunches and publicity among others. Similarly, payment of DSA to casuals under tree planting was noted to be at the rate higher than stipulated rate.

Further, examination of the vouchers revealed that there were no issue notes for the supplied trees seedlings, inspection and acceptance certificates for the tree seedling purchased was not also availed.

Consequently, it was not possible to confirm whether value for money was obtained from this exercise.

4. Road Maintenance

During the year under review, the Service released Kshs.138,588,781 to Londiani, Eldoret, Nyeri and Kinale road units. However, work plans and activities carried out in the roads units revealed that, road maintenance and improvements were not done based on the work plan available. Further, for activities carried out payments were at a higher cost than what was estimated in the work plan. It was also ascertained that the Service doesn’t have specific guidelines to be followed to ensure quality and standards of works done on the roads was appropriate. The costs incurred to purchase building materials for roads were expensed yet the works carried out are capital in nature. Moreover, no photographic evidence on review and inspection of works carried by the casuals was availed.

In addition, payment vouchers raised to pay casuals did not disclose roles or purpose of engagement hence were not clear on how the supervision was completed to ensure that work carried out was according to expectations. Instances of fictitious signatures on the supporting documentations such as (master roll, original/copies of ID attached) were noted. Also, the support documentation (master roll of engaged casuals) could not be matched with the budget requisition. There was no evidence that the human resource department was engaged in hiring the casuals.

5. Recovery of Funds

An audit review of personal files of officers with disciplinary cases during the financial year 2016/2017 revealed one case involving an officer No. KFS 00618 who failed to comply with guidelines leading to KFS incurring a debt of Kshs.12,012,965 arising from irregular deals with timber merchants. Although it was observed that the officer was surcharged Kshs.1,201,296 being 10% of the loss, no details or explanations were availed to ascertain whether the balance of Kshs.10,811,668.40 was either recovered or being pursued.

6. Additions to Buildings

During the year under review, the Kenya Forest Service constructed new ranger houses at a cost of Kshs.58,005,856 which was awarded to Mustard Group and Pinnie Agency. A review of documents revealed that there were no completion certificates for rangers' flats in Karura and Nakuru. Although there was a six months' completion period for all the tenders, each of them were further granted at no cost extension period of six months, therefore prolonging the projects delivery periods.

In addition, capitalization of buildings was carried out before end of defects liability period and is therefore erroneously included in the property, plant and equipment balance of Kshs.1,914,476,198

7. Legal and Arbitration

The financial statements reflects legal and arbitration expenses amounting to Kshs.9,893,272. The audit noted that various lawyers or law firms were engaged to carry out legal services on behalf of KFS. However, it was not clear which selection methods were used to procure the law firms. Further, reports of pending and finalized litigations as at 30 June 2017 were not availed for audit review.

8. Outstanding Imprest

During the year under review, Kenya Water Towers Project advanced imprest totaling kshs.40, 352,917 to partners in the project and various Ecosystem Conservators. As at the time of the audit, Kshs.27,704,339 or 69% of the total sum has remained outstanding, of this outstanding amount, Kenya Water Towers Agency holds Kshs.9, 479,540. No explanation was provided for the delayed accountability of the advanced imprest by the project partners and Ecosystem Conservators impacting negatively on project implementation and achievements.

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

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

In preparing the financial statements, management is responsible for assessing the Kenya Forest Service ability to continue as a going concern, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting.

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

Those charged with governance are responsible for overseeing Kenya Forest Service's financial reporting process.

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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. 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.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of Kenya Forest Service's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Kenya Forest Service'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 Kenya Forest Service's 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 Kenya Forest Service's 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.

From the matters communicated with management, I determine those matters that were of most significance in the audit of the financial statements and internal control of the current period and are therefore the key audit matters. These matters are described in my auditor's report.

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

Nairobi

12 March 2019