REPORT OF THE AUDITOR-GENERAL ON KENYA FOREST SERVICE FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Forest Service set out on pages 1 to 39, which comprise the statement of financial position as at 30 June 2018, 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 effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, the financial position of Kenya Forest Service as at 30 June 2018, 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 Forest Conservation and Management Act, 2016

Basis for Qualified Opinion

1. Property, Plant and Equipment

1.1. Prior year Issues

(i) As previously reported, the financial statements as at 30 June 2018 reflect property, plant and equipment balance of Kshs.1,848,646,138 out of which Kshs.996,034,267 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 had not been valued in the last five years and disclosed separately.

(ii) As previously reported, the 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 and sixty-five (265) gazzetted forest blocks owned by the Service with an acreage of 2,585,526.44 hectares, only seventy-seven (77) blocks have title deeds while twenty-five (25) are at an advanced stage of title deed acquisition.

(iii) The acreage of 2,585,526.44 hectares includes undetermined area of land with ongoing court cases on land ownership disputes between the Service and private parties.

(iv) It was noted that there was illegal encroachments and excisions on forest land in various parts of the country of which a total of 555.9 hectares were illegally acquired by private parties in Kipkabus and Tingwa. Further, in Uasin Gishu County 29.5 hectares of land has installations in the forest land that were not formally permitted through a license and are operational and some which were licensed but remained unpaid for as tabulated below-:

Institution	**Acreage in hectares**
Ministry of Energy	0.7
Kenya Airports Authority	1
Nabkoi Water Project	10
Kapsaret Water Project	1.8
County Cemetery	16
Total	**29.5**

Failure to have appropriate licenses results to loss of revenue and illegal use/occupation of the land.

Consequently, it has not been possible to confirm the accuracy, completeness and ownership of property, plant and equipment balance of Kshs.1,848,646,138 reflected in the financial statements.

1.2. Unsupported Depreciation and Amortization Expenses

The financial statements reflect charge for depreciation and amortization on plant, property and equipment of Kshs.227,407,126 as at 30 June 2018. However, the management did not provide supporting documents indicating the basis upon which the depreciation amounts on various categories of assets were determined.

In absence of the tabulation, the certainty of the depreciation and amortization charge of Kshs.227,407,126 for the year ended 30 June 2018 could not be could not be confirmed.

2. Heritage Assets

Note 24 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 the land, 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 as at 30 June 2018 cannot be ascertained.

3. Cash and Cash Equivalents

As previously reported, the cash and cash equivalents balance reflects Kshs.1,187,021,044 (2017: Kshs.2,414,669,771) as at 30 June 2018. However, the bank reconciliation statement for Kenya Commercial Bank account No.1106770021 availed for audit review reflects long outstanding receipts in the cash book not in the bank statements totaling Kshs.18,325,365 (2017:Kshs.10,824,086) some dating back to September 2014.

In addition, Kenya Commercial Bank account No.1106928652 bank reconciliation statement has payments in the cash book not in the bank statement amounting to Kshs.128,325,952 (2017: Ksh.149,052,070) which had not been cleared as at 30 June 2018.

In the circumstances, it has not been possible to confirm that the cash and cash equivalents balance of Kshs.1,187,021,044 as at 30 June 2018 is fairly stated.

4. Forest Plantations

4.1 Omission of Plantation Land

As previously reported, note 25 reflects plantation balance of Kshs.60,932,496,193 (2017:Kshs.58,112,352,723) as at 30 June 2018. 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. The IPSAS further requires that 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, a detailed register showing the plantations land owned by the Service has not been maintained.

In the circumstances, the value of plantations of Kshs.60,932,496,193 as at 30 June 2018 could not be confirmed as fairly stated.

4.2 Impairment of Plantations

As previously reported Note 25 to the financial statements reflects impairment to plantations of Kshs.34,621,404 (2017: Kshs.41,786,050) representing a decrease of 18% or Kshs.7,164,646 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 2018 as required by IPSAS 27.

In addition, the Service has not disclosed 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.

Further, 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.34,621,404 as at 30 June 2018 could not be confirmed.

5. Receivables from Exchange Transactions

As similarly reported previously, the receivables from exchange transactions balance of Kshs.330,215,977 (2017: Kshs.303,223,258) as at 30 June 2018 include long outstanding debts of Kshs.159,567,842 out of which debts amounting to Kshs.75,024,727 are owed by Government Agencies and Media houses whose transmitters are located within Kenya Forest Service land. The license charges had not been paid for by 30 June 2018 as the license fee is said to have been paid to the Government owned Kenya Broadcasting Corporation. In addition, a review of debtors aging analysis confirmed that some debtors have been outstanding for several years, some since year 2010. Further, during the year under review, the audit of plantation balance revealed that an amount of Kshs.1,221,251,092 debt on harvested forest plantation was not disclosed in the financial statements thus understating the receivables from exchange transactions.

In the circumstances, it has not been possible to confirm the receivables from exchange transactions balance of Kshs.330,215,977 as at 30 June 2018.

6. Revenues and Appropriation in Aid

6.1 Inappropriate Recognition of Revenue from Non-Exchange Transactions

As previously reported the statement of financial performance for the year ended 30 June 2018 reflects revenue from non-exchange transactions of Kshs.2,057,799,547 and deficit for the year of Kshs.1,484,211,923.

The revenue amount of Kshs.2,057,799,547 includes Kshs.38,075,060 reflected as transfers from other governments in Note 7 to the financial statements. The audit of the component revealed 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 4 (a) and Note 7 to the financial statements.

In addition, the statement of changes in net assets for the year ended 30 June 2018 reflects an adjustment of Kshs.124,110,416 made to the revenue reserves which has been described as refunds to different donors after the closure of specific projects for the financial year 2016/2017. Further, donor related grants received during the year 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 and completeness of the revenue from non-exchange transactions balance of Kshs.2,057,799,547 and the deficit for the year of Kshs.1,484,211,933 for the year ended 30 June 2018 could not be confirmed.

6.2 Plantation Revenue and Seeds & Seedlings

During the year under review, the Service earned Kshs.2,702,904,804 as Appropriation-in-Aid (AIA) from forest and related forest products. In the same period, the Service spent Kshs.124,315,407 being Kshs.67,682,163 for trees seeds and seedlings and Kshs.56,633,244 for tree planting activities. This translated to 5% of revenue earned from sale of trees and tree related products. These seedlings were planted in forest plantation areas with an acreage of 7,698 hectares against plantation harvesting of 4,909 hectares. Although the area planted (7,698 ha) appeared higher than the area harvested (4,909 ha), the expenditure on the tree seeds and seedlings was a mismatch with the revenue earned. In addition, the expenditure on seeds and seedlings appears minimal and full stocking of the plantation area may not be realized as there was no justification for minimal spending in trees seeds and seedlings planting despite earning substantial revenue from the tree sales. Further, the planting regime undertaken by the Service does not seem to match with the international standards which should be geared towards increasing the national tree coverage by 10% every year.

Consequently, it has not been possible to confirm the accuracy and completeness of revenue from plantation balance of Kshs.2,702,904,804 for the year ended 30 June 2018.

6.3. Unsupported Appropriations in Aid (AIA)

As previously reported, Note 9 to the financial statements (2016/2017) are proceeds from AIA amounting to Kshs.4,021,549,302 which were not supported. In addition, there were:

(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 as at 30 June 2017.

(iii) No revenue target reports were made available for audit, although KFS provided revenue collected per county for the year ended 30 June 2017.

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 then ended.

6.4. Unaccounted for Plantations Harvesting Revenue

As previously reported, the 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, 2015 and the previous practice of bidding for forest materials which are deemed to be goods and services as provided.

In addition, review of plantation management in Meru Forest confirmed that thirty (30) saw millers were awarded tender to remove forest materials within the forest compartments and blocks during the financial year 2016/2017. It was however, noted that a substantial number of the saw millers had not paid the royalty in full amounting to Kshs.126,081,805 yet, they had harvested the forest material. Further, the names of some of the saw millers could not be traced in the revenue ledgers submitted for audit review.

Consequently, the revenue due may not have been accounted for as at 30 June 2018.

7. Unsupported Instructors Allowance

As previously reported, included in note12 on employee costs of Kshs.4,566,696,388 (2017:Kshs.4,308,608,650) is an amount of Kshs.4,417,676 (2017:Kshs.3,518,244) relating to instructor's allowances. No documentary evidence or approved rates and work done were provided for audit review to ascertain the validity of the expenditure while the Kenya Forestry Service Human Resource Manual is silent on the rates applicable.

In absence of documented details of how the payments are determined, it has not been possible to ascertain propriety of the expenditure amounting to Kshs.4,417,676 being instructor's allowances for the year ended 30 June 2018.

8. Aircraft Operations and Maintenance Cost

The 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 Kshs.8,258,136 for aircraft operating, Kshs.41,505,295 for maintenance of aircraft and Kshs.7,884,154 for fueling, all totaling Kshs.57,647,585. In addition, 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.57,647,585 for the year ended 30 June 2018.

9. Board of Directors Meetings

Section 8 (1) C of the State Corporations Act (Cap 446) stipulates that no meeting of the Board shall be held at any place other than the registered or principal office of the State Corporation except with the prior written approval of the State Corporations Advisory Committee (SCAC). A number of instances were noted where the board's business was conducted outside principal place of business with an expenditure of Kshs.2,317,678 but for which no authority was availed for audit review. In addition, an expenditure of Kshs.3,216,180 was incurred but could not be confirmed as there were no board minutes availed for audit review despite the attendance register having been signed for the meetings listed below;

Date	Description
11/7/2017 & 12/7/2017	BOD meeting on Strategic Plan at Elementaita Lodge
29/1/2018	Special BOD held at KFS Headquarters
27/2/2018	Special BOD held at KFS Headquarters

01/3/2018	Special BOD held at KFS Headquarters
7/3/2018	Special BOD held at KFS Headquarters

Consequently, the propriety of Kshs.5,533,858 could not be confirmed and as such the expenditure incurred thereof was not a proper charge of the public resources.

10. Unsupported Special Operations Expenditure

As previously reported, included in note 19 to the financial statements is general expenses balance of Kshs.1,268,159,267 (2017:Kshs.1,382,815,810) as at 30 June 2018 which includes Kshs.94,706,754 (2017:Kshs.107,868,181) for special operations expenditure. This expenditure was incurred on imprests issued to various District Forest Officers and Regional Commandants for purchase of goods and services and allowances to forest rangers. However, the management did not avail report to support special activities on forest protection.

In the circumstances, it has not been possible to confirm the propriety of expenditure on special operations of Kshs.94,706,754 and whether it is a proper charge of public resources.

11. Forest Conservation Committee Chairmen (FCC) Monthly Honoraria

During the year under review, the Service paid honoraria of Kshs.3,040,000 to chairpersons of Forest Conservation Committees. The honoraria is pegged on a monthly pay of Kshs.30,000. Supporting documents/schedules showing how the rate was derived was not availed for audit review. The payment which has been going on since year 2009 had no basis of payment as the rates are not included in the KFS human resource manual. Consequently, it has not been possible to confirm the accuracy and completeness of honoraria of Kshs.3,040,000 and whether it is a proper charge of public resources.

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 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. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1. Utilization of Information Technology (IT)

The financial statements under review indicates the net book value of computers and ICT assets as Kshs.38,359,011 and the value of intangible assets as Kshs.28,452,934 all totaling Kshs.66,811,945. It was noted that the Service was still experiencing inadequate IT infrastructure in terms of suitable systems (software), ICT personnel and appropriate hardware. The slow adaptation of ICT services was noted 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 activities such as illegal logging, theft of firewood or forest fires. The system is not linked to any devices positioned in the forests for prompt surveillance and GIS is not interfaced with the aim of surveillance and monitoring of forests.

2. Enterprise Resource Planning (ERP)

The Service acquired an Enterprise Resource Planning (ERP) system to manage its operations. The ERP has several modules amongst which is the revenue collection module which is used in the management of revenue collection. An analysis of the revenue collection module revealed that the Service operates both a manual and electronic system in the collection of revenue.

Manual receipt books are used to collect revenue then subsequently an electronic internal receipt is issued to clear the initial collected revenue and recognize or account for the revenue in the system. The management has not explained why the Manual system and Electronic system are used interchangeably

3. Property, Plant and Equipment

3.1. Asset Valuation Policy

Note 4(e) on property, plant and equipment under the summary of significant accounting policies stipulate that all asset category are re-valued every 5 years or when need arises. In addition, IPSAS 17 Section 31 stipulates that revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the balance sheet date. The Service has a policy document to guide the management in the management of its assets; mainly the valuation, recording and capitalization of assets, rate/method of depreciation, impairment of assets, the procedures of write offs and disposal. However, there is no evidence that valuation has been carried out as stipulated in the policy document.

In the circumstances the assets as reflected in the financial statements may not be at fair value.

3.2. Plantations Valuation Method

As previously reported, the valuation process used by the service had the following shortcomings:

- The Ecosystem Conservation (E.C) of forests in the 10 regions across the country identified the trees stock earmarked for sale. Once identified, valuation was done by a team of field inventory enumerators assisted by casuals due to what was claimed by the department as staff shortage.

- The Ecosystem Conservation (EC) then recommended the saw millers to be allocated and forwarded the same to the Chief Conservator of Forests (CCF) who were then allocated the plantations based on the size of the saw miller in the respective region.

- Sales invoices were then prepared and sent to the respective millers according to the assessed value. Harvesting was not to commence before the Service was in receipt of full invoice value from the suppliers. This was the ideal situation for most of the plantations allocated.

- Exceptions occurred where saw millers paid full invoice value but tree stands remained un-harvested for longer periods, even longer than the stipulated one-year period.

- In other instances, rebates were issued to saw millers who encountered defective trees during harvesting thereby reducing the invoice value. This scenario results to reconciliation issues between the plantation department and the revenue section which sometimes remained outstanding for long periods unresolved.

- Likelihood of collusion amongst the saw millers, inventory team, Chief Conservator of Forests (CCF) office and the Ecosystem Conservation (EC) office is evident due to-:

✓ Absence of reconciliation in the two departments may misstate revenue.
✓ Allocation to saw millers may not be free and fair.
✓ Valuation process may be manipulated during assessment, miller identification and allocation.

- Further there was no evidence of any reconciliation between the allocated materials, invoiced materials, paid materials, removed materials and even remaining materials on the ground. Lack of plantation compartment register and an overall plantation management plan has adversely affected the accountability of the country’s forest cover.

Section 72(1) b of the Public Finance Management (PFM) Act, 2012 states that the accounting officer of a public entity shall manage the assets in a way that ensures that the national government entity achieves value for money in acquiring, using and disposing of those assets.

In absence of the above checks and balances the plantation valuation and disposal process cannot be confirmed.

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 Report 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 Matters

1.1. Procurement and Installation of Asset Tagging, Bar Coding and Management System

As similarly reported in 2016/2017, the 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 a consulting firm was awarded the tender to provide the services at a tender sum of Kshs.5,393,960. However, the firm was not the lowest evaluated bidder. A review of the documents provided revealed that the lowest evaluated bidder was another consulting firm that had placed a bid of Kshs.3,662,120 and had met the pass mark on both financial and technical evaluation of 75%. It is not clear why the lowest evaluated bidder was not awarded the tender to offer the services.

As a result of the award, Kenya Forest Service may have not obtained value for money on this contract on the excess of Kshs.1,731,840

1.2. Legal and Arbitration

As previously reported, note 19 to the financial statements includes legal and arbitration expenses amounting to Kshs.15,393,903 (2017: Kshs.9,893,272) as at 30 June 2018. During the year under review and prior years it was noted that various lawyers or law firms were engaged to carry out legal services on behalf of Kenya Forest Service.

During the year under review, the legal cost rose by 56% from Kshs.9,893,272 to Kshs.15,393,903. It is not clear and the management did not explain which procurement and selection methods were used to procure the law firms and why the approval to hire services was not sought from Attorney-General. In addition, reports of pending and finalized litigations as at 30 June 2018 were not availed for audit review.

Consequently, it was not possible to confirm whether the entity got value for money and is in breach of the Law.

2. Sale of Commercial Plantations

During the year under review, the Service sold tree plantations worth Kshs.2,312,653,626 by use of direct procurement method contrary to the procurement law. The saw millers were identified by Ecosystem Conservator (EC) who then recommended the saw millers to the Chief Conservator of Forests (CCF) for allocation of plantation compartments. There was no evidence of how the trees values were determined as there were no reserve prices set by the Ecosystem Conservator.

Upon receipt of recommendations from E.C. the CCF had the prerogative to adopt or make amendments on the recommendations for allocations. After examination of the recommendations, the CCF awarded the trees based on the sizes to the saw millers. There were no clear guidelines how the E.C and the CCF identified, examined, evaluated and awarded the saw millers thereby rendering the method subjective and subject to abuse.

In addition, review of the award process revealed that these were done in violation of the forest participation as stipulated in Sustainable Forest Management Rules, 2009 and Public Procurement and Asset Disposal (PPAD) Act, 2015 which guides on use of the open tender method for such forms of procurement.

Further, the process did not incorporate expertise of the procurement department personnel who are mandated by the law in providing professional opinion in such matters. Consequently, the management flouted the PPAD Act, 2015 and the Forest Management Rules, 2009 which leads to suppression of competitiveness among saw millers and the entity may not have got value for money.

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

Basis for Conclusion

Unjustified Cost of Refined Fuels

As previously reported the 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.124,973,371 as at 30 June 2018.

A review of ledgers provided for audit review revealed that the Service continues to issue accountable imprest to District Forest Officers and Regional Commandants for purchase of fuel for motor vehicles, in complete disregard to the contract between the Service and Total Kenya Limited. It has not been possible to confirm control effectiveness employed by the service.

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 Service's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Service or to cease operations, or have no realistic alternative but to do so.

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

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 Service's 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.

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

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

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

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

Nairobi

22 May 2019