

# **REPORT OF THE AUDITOR-GENERAL ON KENYA MARINE AND FISHERIES RESEARCH INSTITUTE FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Kenya Marine and Fisheries Research Institute set out on pages 1 to 32, which comprise the statement of financial position 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, 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 Kenya Marine and Fisheries Research Institute 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 Science and Technology Act, Cap 250 laws of Kenya.

In addition, as required by Article 229 (6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures performed, I confirm that nothing else has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

### **Basis for Qualified Opinion**

#### **1. Presentation of Financial Statements**

The financial statements presented for audit review for the year ended 30 June 2017 were not approved by the Chair of the Board as the Board term expired on 6 April 2018 and at the time of the audit, a new Chair was awaiting appointment. This is contrary to Section 15 (1) of State Corporations Act Cap 446 which states that the Board shall be responsible for the proper management of the affairs of a state corporation and shall be accountable for the moneys, the financial business and the management of a state corporation.

In the circumstances, the financial statements presented for audit were not dully approved.

#### **2. Property Plant and Equipment**

## **2.1 Ownership Documents and Valuation**

As previously reported, the Institute owns un-surveyed land located in Baringo, Sangoro and Mtwapa, measuring 2.35 hectares, 0.7 hectares, and 13.4 acres respectively, which have neither been valued nor included in the property, plant and equipment figure of Kshs.1,293,392,910 as at 30 June 2017. For the 2 parcels of land in Baringo, the Institute holds only allotment letters while the 3 parcels of land in Sangoro measuring 1.8 hectares, the Institute did not avail any ownership document. In addition, for the land in Mtwapa, the ownership documents were also not availed for audit verifications but the management reported that this land was grabbed before the transfer from Kenya Agricultural Research Institute (KARI) was complete. The status remains as previously reported.

## **2.2 Sale of the Kongowea Land**

As reported previously, the Institute on 26 January 2007 sold the Kongowea parcel of land LR No.6034/1/MN-Kongowea Mombasa, measuring approximately 1.998 hectares valued at Kshs.22.8 million to a Kongowea Market Estate Limited at a selling price of Kshs.15,020,000 and the title transferred to the purchaser before the Institute received full amount of the sale price. In addition, the lawyer who received the money on behalf of the Institute on 26 March 2009 did not remit the same to the Institute until 2010/2011 financial year when he transmitted Kshs.13,444,923 leaving a balance of Kshs.1,575,077 and any interest accrued for the period the funds were held. Further, the selling price of Kshs.15,020,000 was below the market value of Kshs.22,800,000 resulting to a probable loss of Kshs.7,780,000. The balance of Kshs.1,575,077 had not been remitted to the institute as at 30 June 2017. No explanation was provided for the transfer of the property before receiving full consideration and also why the property was sold below the market value.

The transaction has resulted to a probable loss in excess of Kshs.9,355,077 to the Institute.

## **3. Motor Vehicles**

As reported in the previous years, included in the property, plant and equipment balance of Kshs.1,293,392,910 as at 30 June 2017 is a balance of Kshs.16,761,483 in respect of motor vehicles. Included in motor vehicle balance of Kshs.16,761,483 is the cost of seven (7) motor vehicles amounting to Kshs.35,652,051 acquired during the financial year 2014/2015. However, according to the Institute's year 2014/2015 procurement plan, only one vehicle was to be purchased at a cost of Kshs.2,600,000. Therefore, the basis of procuring the extra six (6) vehicles was not clear. In addition, out of the Kshs.35,652,051 spent on acquisition of motor vehicles, Kshs.28,357,049 was reallocated from the Government of Kenya counterpart funds for Kenya Coastal Development Project without any evidence of authority to reallocate the funds. Further, the vehicles were distributed to locations where the project's activities are not undertaken.

Consequently, the accuracy and completeness of property, plant and equipment balance of Kshs.1,293,392,910 as at 30 June 2017 could not be ascertained.

#### **4. Cash and Cash Equivalent**

##### **4.1 Unsupported Project Accounts Balances**

Note 12 to the financial statements for the year ended 30 June 2017 reflects cash and cash equivalents balance of Kshs.882,964,824. Included in this amount is a balance of Kshs.219,570,643 in respect of Project Accounts. However, bank reconciliation statements, certificate of balances and bank statements availed for audit supported Kshs.218,476,551 resulting to unexplained nor reconciled variance of Kshs.1,094,092

Consequently, the accuracy and completeness cash and cash equivalent balance of Kshs.882,964,824 as at 30 June 2017 could not be confirmed.

##### **4.2 Sagana Recurrent Account**

Note 12 to the financial statements for the year ended 30 June 2017 reflects the cash and cash equivalents balance of Kshs.882,964,824 includes an amount of Kshs.565,521,957 in respect to recurrent accounts. Included in this amount is a balance of Sagana recurrent account of Kshs.551,822. However, bank reconciliation statement of the Sagana recurrent account availed for audit reflected cashbook balance of Kshs.108,633 which results to an unreconciled variance of Kshs.443,189.

Consequently, the accuracy and completeness of the cash and cash equivalent balance of Kshs.882,964,824 could not be confirmed.

#### **5. General Expenses**

##### **5.1 Donor Projects Costs**

The general expenses balance of Kshs.1,224,143,394 includes a balance of Kshs.1,063,250,881 in respect to research programs. This includes World Bank Donor projects costs which was indicated as Kshs.880,290,146. However, examination of certified financial statements for the two World Bank projects for the year ended 30 June 2017, revealed that Kenya Coast Development Project Credit number 4801 had expenditure of Kshs.781,995,333 while Project Grant Number TF 97578 had expenditure of Kshs.102,386,674, all totalling to Kshs.884,382,007. This resulted to unreconciled variance of Kshs.4,091,861 between the certified accounts for the two Donor projects and the schedules availed for audit to support the Donor projects costs.

Consequently, the accuracy, validity and completeness of research program expense balance of Kshs.1,224,143,394 for the year ended 30 June 2017 could not be confirmed.

## **5.2 Cruise Expenditure**

Included in the research program is an amount of Kshs.57,730,325.65 in respect to RV Mtafiti expenses where Kshs.35,294,412 was paid out as night outs to staff while on expedition cruises through temporary imprests. However, the basis of night out payments to the cruise staff was not clear since all the cruise expenditure was catered for by the Institute.

Consequently, the accuracy, propriety and completeness of the MV Mtafiti night out expenses of Kshs.35,294,412 could not be confirmed.

## **5.3 Unaccounted for Expenditure on Fuel**

The amount of Kshs.57,730,326 in respect of RV Mtafiti expenses also includes an amount of Kshs.11,880,000 related to fuel supplied by National Oil for Mtafiti Research Vessel. However, documents showing how the fuel was utilized were not availed for audit review.

In the circumstances, the accuracy, completeness and propriety of MV Mtafiti fuel expenditure of Kshs.11,880,000 could not be confirmed.

## **6. Government Grants**

The statement of financial performance for the year ended 30 June 2017 reflects government grants of Kshs.1,275,500,000 from the parent ministry. However, records at the State Department of Fisheries and Blue economy reflects a transfer of Kshs.1,356,730,476 to Kenya Marine and Fisheries Research Institute, resulting to an unreconciled variance of Kshs.81,230,476.

In the circumstances, the accuracy and completeness of the government grants figure of Kshs.1,275,500,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Marine and Fisheries Research Institute 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 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. 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

### 1.0 Budget Control and Performance

According to the statement of comparison of budget and actual amounts, the Institute had an approved budget of Kshs.1,570,055,691 for the financial year 2016/2017 against actual expenditure of Kshs.1,872,237,523 resulting to an overall over expenditure of Kshs.302,181,832 or 19% as detailed below;

Item	Budget Kshs.	Actual Kshs.	Under Expenditure Kshs.	Over Expenditure Kshs.	% Variance
Basic Salaries	309,265,621	294,777,626	14,487,995		4.7%
Personal Allowances	206,053,741	204,245,748	1,807,993		0.9%
Personal Allowances- Reimbursement	6,914,000	4,926,082	1,987,918		28.8%
Employers Pension Contribution	72,850,717	51,024,204	21,826,513		30.0%
Utilities Supplies & Services	11,290,000	11,344,903		(54,903)	0.5%
Communication, Supplies & Services	9,970,050	11,469,120		(1,499,070)	15.0%
Domestic Travel And Subsistence	30,000,000	37,358,636		(7,358,636)	24.5%
Foreign Travel And Subsistence	3,000,000	1,908,502	1,091,498		36.4%
Printing & Publishing Information	8,150,000	7,372,894	777,106		9.5%
Rental Of Produced Assets	7,520,000	5,549,094	1,970,906		26.2%
Training Expenses	11,010,000	8,705,875	2,304,125		20.9%
Hospitality Supplies \$ Service	20,158,125	22,949,655		(2,791,530)	13.8%
Insurance Costs	79,113,433	34,020,143	45,093,290		57.0%
Research Programmes	668,970,232	1,063,416,450		(394,446,218)	59.0%
Specialised Materials & Supplies	3,778,340	7,154,760		(3,376,420)	89.4%
General Office Suppliers	8,420,682	10,374,199		(1,953,517)	23.2%
Fuel , Oil And Lubricants	3,505,000	3,652,968		(147,968)	4.2%
Other Operating Expenses	30,637,007	68,623,001		(37,985,994)	124.0%
Routine Maintenance- Vehicle &	11,461,756	8,767,976	2,693,780		23.5%
Routine Maintenance- Other Ass	26,302,000	13,698,579	12,603,421		47.9%

Purchase Of Furniture	11,435,000	-	11,435,000		100.0%
Purchase Of Specialized Plant, Equip.	30,000,000	-	30,000,000		100.0%
Purchase Of Coffins/Rel. Expen	249,987	897,109		(647,122)	258.9%
<b>Total</b>	<b>1,570,055,691</b>	<b>1,872,237,524</b>	<b>148,079,546</b>	<b>(450,261,378)</b>	

The management did not provide authority for the over expenditure of Kshs.450,261,378 or 29%. Regularity of this over expenditure could not be confirmed. Further, the Authority under spent on some items by Kshs.148,079,546 or 9% thus affecting delivery of goods and services to the citizens.

### **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 Institute's ability to continue as a going concern, disclosing, as applicable, matters related to going concern/sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Institute's or 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.

Those charged with governance are responsible for overseeing the Institute'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 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 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 Institute'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 Institute's ability to continue offering 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 Institute to cease to continue offering 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 of the entities or business activities 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**

**11 July 2018**