

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Wildlife Services set out on pages 22 to 56, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in net reserves, 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 the Kenya Wildlife Service as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and the Public Finance Management Act 2012 and the State Corporations Act (Cap 446).

In addition, as required by Article 229(6) of the Constitution, except for the matter described in the Other Matter section of my report, based on the procedures performed, I confirm that, nothing 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. Property, Plant and Equipment

As previously reported, property, plant and equipment balance of Kshs.5,749,119,000 as at 30 June 2017 excludes the undetermined value of 222 parcels of land across the country with and without title documents but on which the service has put up various developments including buildings. These comprises 23 National Parks, 29 National Reserves, 6 Marine National parks, 6 marine National Reserves and 6 Sanctuaries and one hundred and fifty-two (152) other parcels of land. Further, the Service has 45 title deeds while 177 are still in process.

In addition, the Service has not updated its fixed assets register. The fixed assets register balance of Kshs.7,568,827,464 is at a variance with the ledger balance of Kshs.5,749,119,000 resulting in an unexplained difference of Kshs.1,819,708,464. In addition, the depreciation charge for the year amounting to Kshs.1,082,462,000 was computed based on the gross balance for property, plant and equipment as recorded in the ledger which does not take into account assessment of impairment fully depreciated

assets still in use by the Service. The depreciation is therefore mis-stated due to inaccuracies of the property, plant and equipment balance on which depreciation is based.

In view of the foregoing, it has not been possible to ascertain the accuracy, completeness, valuation and security of the property, plant and equipment balance of Kshs.5,749,119,000 as at 30 June 2017.

2. Compensation for Land Hived – Off

2.1 Standard Gauge Railway (SGR)

Compensation for land hived-off from the National Park for the construction of Standard Gauge Railway (SGR) phase one as per the agreement was Kshs.1,475,000,000 out of which Kshs.1,374,900,000 was received during the previous financial year and Kshs.94,100,000 was received during the year under review leaving an unexplained deficit of Kshs.6,000,000. The money was meant for environmental restoration but due to huge underfunding of its operational activities the service utilized the funds under its recurrent expenditure. There was no approval from Treasury for the diversion of the funds contrary to the Public Finance Management Act, 2012.

Further, compensation Under Standard Gauge Railway (SGR) phase Two as per the agreement was Kshs.4,000,000,000, the service initially received Kshs.1,000,000,000 while the balance was to be received in six equal instalments of Kshs.500,000,000. However, as at 30 June 2017 they had received Kshs.1,000,000, 000 instead of Kshs.1,500,000,000 leaving an unexplained deficit of Kshs.500,000,000.

2.2 Southern Bypass

Similarly, revenue from compensation for land hived-off Nairobi National Park for construction of Southern bypass road was Kshs.3,740,713,840 as agreed with the National Government, out of which Kshs.1,266,003,840 was received leaving an unexplained deficit of Kshs.2,474,710,000. The funds were to be deposited in Wildlife Endowment Fund but due to alleged underfunding of the recurrent operations of the Service they were utilized on its recurrent operations. However, there was no approval obtained from National Treasury for diversion of Funds contrary to Public Finance Management Act, 2012.

Further, the unpaid compensation of Kshs.2,980,710,000 has not been accrued in the financial statements for the year under review.

3. Trade and Other Receivables

Trade and other receivables balance of Kshs.776,517,000 as at 30 June 2017 include Kshs.80,000,000 being excess medical expenses incurred on staff and out of which Kshs.28,000,000 relate to deceased employees. The likelihood that these advances will be recovered is minimal.

Consequently, the accuracy and recoverability of trade and other receivables balance of Kshs.776,517,000 as at 30 June 2017 cannot be ascertained.

4. Inventory

The inventory balance of Kshs.372,937,000 as at 30 June 2017 (2016, Kshs.308,328,000) is based on the latest purchase price and not the first-in-first-out method recommended in International Financial Reporting Standards (IFRS 2) under which the financial statements are prepared. Further, the management does not analyze inventory to assist in identifying the slow moving stocks to determine the provisions for write-off of such.

Consequently, the accuracy and completeness of inventory balance of Kshs.372,937,000 as at 30 June 2017 cannot be ascertained.

5. Financial Performance

During the year under review the Service incurred a deficit of Kshs.1,538,656,000, in 2015/16 the deficit was Kshs.571,350,000 and in 2014/15 it was Kshs.1,504,538,000. The accumulated deficit as at 30 June 2017 was Kshs.7,362,124,000 which is equivalent to 73% of the total assets. The going-concern status of the service is therefore dependent on continued support by the National Government and Creditors.

6. Endowment Fund

The Wildlife Conservation and Management Act, 2013 provided for the establishment of Wildlife Endowment Fund which would be vested in the Board of Trustees. The Fund was established during the year under review and with the Board approval Kshs.1,000,000,000 which was received from SGR during the year under review was placed under that Fund. The Fund received funds from donors amounting to Kshs.67,804,000 in the year 2016. The balance reflected in the financial statement is Kshs.1,120,396,000. Apparently the management does not maintain proper records for the Fund.

Consequently, the accuracy and completeness of the Endowment Fund balance of Kshs.1,120,396,000 as at 30 June 2017 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Wildlife 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 that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the matter described in the Basis for Qualified Opinion section of my report, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matter

Non-completion of Construction Contracts

Work contracts for the construction of Museum and Education Centre at Marsabit National Reserve amounting to Kshs.58,045,189.00 which were to be completed within the year under review were not completed despite the existence of an approved budget. There is the risk that delays in the implementation of these contracts will have an overall delay in the implementation of the project thereby defeating the Government policy objective of conserving biodiversity in the area. There is, also, the risk of lapsing of bid bonds which had been a factor for preliminary qualification for contractors as was the case in this instance.

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 Financial Reporting Standards 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 Service's ability to continue to sustain its services, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the corporation 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.

Those charged with governance are responsible for overseeing the 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 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

08 October 2018