

# **REPORT OF THE AUDITOR-GENERAL ON KENYA FOREST SERVICE FOR THE YEAR ENDED 30 JUNE, 2019**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Kenya Forest Service (KFS) set out on pages 1 to 48, which comprise of the statement of financial position as at 30 June, 2019, statement of financial performance, statement of changes in net assets, statement of cash flows and the 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 effects of the matter 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 Forest Service as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Forest Conservation Management Act, 2016 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Property, Plant and Equipment**

As previously reported, the financial statements as at 30 June, 2019 reflect property, plant and equipment balance of Kshs.1,706,347,711 out of which Kshs.931,995,373 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 are erected had not been valued in the last six years and disclosed separately.

Further, 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) gazetted 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. The acreage of 2,585,526.44 hectares includes a number of parcels of land of undetermined acreage with ongoing court cases on ownership statuses between the Service and private parties.

In addition, it was also noted that there was illegal encroachments and excisions on forest land in various parts of the country with a total of 555.9 hectares being illegally acquired by private parties in Kipkabus, Tingwa and Ngong forest. In Uasin Gishu County, 29.5 hectares of forest land have installations as tabulated below-:

| <b>Institution</b>       | <b>Hectares</b> |
|--------------------------|-----------------|
| Ministry of Energy       | 0.7             |
| Kenya Airports Authority | 1               |
| Nabkoi Water Project     | 10              |
| Kapsaret Water Project   | 1.8             |
| County Cemetery          | 16              |
| <b>Total</b>             | <b>29.5</b>     |

Some of the installations were not formally permitted through a license and are operational while others were though licensed had remained unpaid. 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.1,706,347,711 reflected in the financial statements.

## **2. Heritage Assets**

As previously reported, Note 26 of the financial statements indicate that the Service has two hundred and sixty-five (265) gazetted forest blocks, some of which form part of conservation areas and nature resources therein and are 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 presentation of the financial statements for the year ended 30 June, 2019 could not be ascertained.

## **3. Inaccuracies in Cash and Cash Equivalents**

As previously reported, the statement of financial position reflects cash and cash equivalents balance of Kshs.1,522,958,903. However, the bank reconciliation statement for one bank account held in a commercial bank reflects long outstanding receipts in the cash book not in the bank statements totaling Kshs.16,135,567 with some dating back to September, 2014. Management has attributed the outstanding receipts to an ongoing case in court.

In the circumstances, the accuracy of cash and cash equivalents balance of Kshs.1,522,958,903 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

## **4. Forest Plantations**

### **4.1. Omission of Plantation Land**

As previously reported, Note 27 to the financial statements reflects a plantation balance of Kshs.65,829,634,562 (2018: Kshs.60,932,496,193) as at 30 June, 2019. However, the value of the land on which the plantations are located 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. 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 had not been maintained.

### **4.2. Impairment of Plantations**

As previously reported, Note 27(ii) to the financial statements reflects an impairment balance of Kshs.122,809,496 (2018: Kshs.34,621,404) on plantations representing an increase of Kshs.88,188,092 or 254% from the previous year. However, the impairment was not recognized as a loss in the statement of financial performance for the year ended 30 June, 2019 as required by IPSAS 27. The Service had 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, in Mau and North Rift Conservancies, 227.7 Hectares of mature and young plantations valued at Kshs.75,974,850 were burnt. The loss resulted to 42 times compared to the previous year. Poaching of mature trees, poles, withies, and uprooting of young seedlings was reported in all the conservancies. This reduced the values of standing stock by Kshs.7,325,880 during the period under review. No disclosure has been made on changes to the carrying amount of the biological assets. Therefore, it was not clear if the biological assets were disclosed using fair value measurements as required by IPSAS 27.

In the circumstances, the value of plantations balance of Kshs.65,829,634,562 as at 30 June, 2019 could not be confirmed as fairly stated.

## **5. Receivables from Exchange Transactions**

As similarly reported previously, the receivables from exchange transactions balance of Kshs.355,475,425 include long outstanding debts of Kshs.247,716,405 out of which debt amounting to Kshs.75,024,727 was 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, 2019 as the license fee is said to have been paid to the Government owned Kenya Broadcasting Corporation. Review of debtors aging analysis confirmed that some debtors have been outstanding for several years, some since year 2010.

Further, it was also noted that the minutes of the special Board of Directors meeting dated 14 November, 2018, had noted that the proprietors of Kipini Conservancy owed the Service Kshs.19 million. The Conservator of Kipini had communicated to the Management of the Service offering to give 5,000 hectares in lieu of payment and requested that the Government should purchase the remaining hectares. The Board advised the Management to write to the parent Ministry to request Treasury for money to purchase the land. However, the advice of the Board was not acted on. Further, the debt of Kshs.19 million was omitted in the financial statements, thus understating the receivables from exchange transaction by the same amount.

In addition, review of plantation records 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, accuracy and completeness of the receivables from exchange transactions balance of Kshs.355,475,425 as at 30 June, 2019 could not be ascertained.

## **6. Appropriation in Aid - Inappropriate Recognition of Revenue from Non-Exchange Transactions**

As disclosed in Note 7 to the financial statements, the statement of financial performance for the year ended 30 June, 2019 reflects revenue from non-exchange transactions balance of Kshs.4,758,370,500 and deficit for the year balance of Kshs.393,295,798. The revenue Kshs.4,758,370,500 includes a balance of Kshs.37,156,016 reflected as transfers from other Governments which had related conditions attached that would give rise to a liability to repay the amounts.

In the circumstances, the accuracy and completeness of the revenue from non-exchange transactions balance of Kshs.4,758,370,500 and deficit of Kshs.393,295,798 for the year ended 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Forest Service Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

## **Other Matter**

### **1. Budget Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.7,222,990,624 and Kshs. 5,741,653,588 respectively resulting to an under-funding of Kshs.1,481,337,036 or 21% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.7,222,990,624 and Kshs.5,846,349,527 respectively resulting to an under-expenditure of Kshs.1,376,641,097 or 19% of the budget.

Based on the approved estimates, the under-funding and under expenditure affected the planned activities and have impacted negatively on service delivery to the public.

### **2. Prior Year Matters**

In the audit report of the previous year, several issues were raised. However, the Management has not resolved all the issues as per the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref. PSASB/1/12/Vol. 1/ (44) of 25 June, 2019.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1. Failure to Revalue Assets**

As disclosed in the notes to the financial statements in paragraph 5 – significant judgments and sources of estimation uncertainty on useful lives and residual values, 'all items in an asset category are re-valued every 5 years or when need arises'. Section 31 of the International Public Sector Accounting Standards, IPSAS 17 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. Although the Service has a policy document to guide the management in the management of its assets, there is no evidence that valuation has been carried out as stipulated in the policy document.

In the circumstances, Management is therefore in breach of the law.

## **2. Irregular Board Sitting Allowances**

During the year under review, it was noted that the representative of the Inspector-General (Corporations) was paid sitting allowances amounting to Kshs.198,000. The allowances and other remunerations are only payable to duly appointed (gazetted) Members of the Board. This is contrary to the Attorney General letter Ref. AG./CONF/6/D/73 VOL.1 dated 22 August, 2013.

Consequently, Management was in breach of the Law.

## **3. Outstanding Imprests**

As disclosed in Note 25 to the financial statements, the statement of financial position reflects amount of Kshs.60,367,594 as receivables from non-exchange transactions. The balance includes Kshs.25,739,963 being temporary imprest which had not been surrendered by the close of the year as required by Section 71(4) of Public Finance Management Act, 2012.

In the circumstances, Management was in breach of the law.

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**

#### **Utilization of Information Technology (IT)**

The statement of financial position reflects the net book value of computers and ICT assets of Kshs.28,118,479. It was noted that Service was 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.11,455,250 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.

In the circumstances, I am unable to confirm the effectiveness of IT procured by Management.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and Board of Directors**

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 overall governance.

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 sustainability of services and using the applicable basis of accounting unless Management is aware of intention to terminate the Service or to cease operations.

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Service 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 overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the

provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

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



- Conclude on the appropriateness of the Management’s use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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.



**CPA Nancy Gathungu CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**16 November, 2021**