

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
Email: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA MARINE AND FISHERIES RESEARCH INSTITUTE FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;
- B. Report on Lawfulness and Effectiveness in the Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose; and,
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

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 41, which comprise of the statement of financial position as at 30 June, 2025 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, 2025 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 UNEP grant Agreement Number UNEP/PCA/Ecosystems Division/2022/5923, Science, Technology and Innovation Act, No. 28 of 2013, the state corporation Act, Cap 446 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Doubtful Receivables from Non – Exchange Transactions

The statement of financial position and Note 22 to the financial statements reflect receivables from non - exchange transactions balance of Kshs.440,406,159. The balance includes Kshs.17,672,827 due from eight (8) former employees who breached their bonding contracts and exited before full redemption of their individual bonds. However, the Institute has not instituted any formal recovery measures including notifying the new employers or instituting legal action, as required under Paragraphs 2.9 (i) and (ii) of the guidelines on the Bond for training public servants, 2018. The recoverability of the balance is doubtful.

In the circumstances, the accuracy and fair statement of receivables from non - exchange transactions balance of Kshs.440,406,159 could not be confirmed.

2. Land without Ownership Documents

The statement of financial position and Note 24 to the financial statements reflect property, plant and equipment balance of Kshs.1,266,396,740 which includes land valued at Kshs.337,500,000. However, review of the asset register revealed that the Institute has five (5) parcels of land; one in Kisumu County and two each in Baringo and Turkana Counties which did not have ownership documents.

In the circumstances, the accuracy, completeness and rightful ownership to the land valued at Kshs.337,500,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Marine and Fisheries Research Institute Management in accordance with ISSAI 130 on the 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 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 Matters

Unresolved Prior Year Matters

In the audit report of the previous year, several issues as listed below were raised under the Reports on Financial Statements, Lawfulness and Effectiveness in the Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, although management disclosed the progress made on resolving the matters, no evidence was provided in support of the reported status as at 30 June, 2025.

1. Unrecognized receivables from non-exchange transactions.
2. Lack of land valuation and ownership documents.
3. Unsupported legal expenditure.
4. Irregular transfer of land and non-compliance with requirements on finance leases.
5. Inconsistencies and breach of contract on contingent assets.

Other Information

The Directors are responsible for the Other Information set out on page ii to xlix which comprise of Key Entity Information and Management, The Board of Directors, Key Management Team, Chairman's Statement, Report of the Director General, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors and the Statement of Directors Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Institute's financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the 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 of Insurance Policy Without Valuation Reports

During the year under review, the Institute procured for marine hull insurance cover for one of its vessel and equipment on board at a cost of Kshs.11,285,276 based on the sum insured value of Kshs.450,000,000. However, the basis for the sum insured value was not supported by way of a valuation report contrary to Section 139(1) of the Public Finance Management (National Government) Regulations, 2015, which requires Accounting Officers to ensure proper control systems exist for assets, including mechanisms to prevent losses, wastage, or misuse, and to maintain accurate valuations.

In the circumstances, the management was in the breach of the law while value for money on the insurance cost could not be confirmed.

2. Delays in Implementation and Commissioning of ERP System

The Institute spent an amount of Kshs.9,097,060 on the acquisition of the Enterprise Resource Planning (ERP) system which was to be delivered within the contract period of eight months later extended to nine months. Although, more than four years after have lapsed since the award of the contract and the contractor having been paid in full, the project remained incomplete as at 30 June, 2025. Management did not provide evidence of approval for the prolonged delays contrary to the provisions of Section 139(2) of the Public Procurement and Asset Disposal Act, 2015, which permits extensions of contract periods only upon recommendation by the evaluation committee and with adequate justification.

In the circumstances, management was in breach of the law while value for money has not been realized from the investment on the ERP project.

3. Dormant Bank Accounts

Review of the cash books and bank statements revealed that the institution maintained several bank accounts with balances totaling Kshs.789,597 which had remained inactive for a prolonged period contrary to Section 28(1) of the Public Finance Management Act, 2012 on operations and closures of the banks accounts.

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

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require 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 comply 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 effects of the matter 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 governance were not effective.

Basis for Conclusion

Board Composition Deficiencies

Review of the Board composition revealed that the Institute has representation in ecology, hydrobiology, chemistry, parasitology, veterinary sciences, zoology, law, and corporate governance and lacks critical expertise in fisheries economics and policy analysis, food science and post-harvest value addition, ICT and data analytics, environmental toxicology and pollution control. The absence of these specialized skills undermines the Board's ability to provide oversight and strategic direction across the Institute's research, innovation, and resource management functions.

In the circumstances, effectiveness of internal controls, risk management and governance could not be confirmed.

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 controls, 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 the 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 controls 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 controls, risk management and governance.

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 and using the going concern basis of accounting unless Management is aware of the intention 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 comply 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 Institute's, financial reporting process, reviewing the effectiveness of how Management 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

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. 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.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: <https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/>. This description forms part of my auditor's report.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

26 November, 2025

