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REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF KENYA COASTAL DEVELOPMENT PROJECT GEF GRANT NO. TF 097578

FOR THE YEAR ENDED 30 JUNE 2017

KENYA MARINE AND FISHERIES RESEARCH INSTITUTE

OFFICE OF THE AUDITOR GENERAL
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COAST HUB

PROJECT NAME : KENYA COASTAL DEVELOPMENT PROJECT (KCDP)

IMPLEMENTING AGENCY: KENYA MARINE AND FISHERIES RESEARCH INSTITUTE (KMFRI)

PROJECT GRANT NUMBER: TF 97578

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

Prepared in accordance with the Cash Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS)

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1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Name: Kenya Coastal Development Project,

Objective:
The key objective of the project is to improve management effectiveness and enhance revenue generation of the recipient's coastal and marine resources.

Address: The project headquarters offices are in Mombasa City, Mombasa County, Kenya.
English Point Mkomani
P.O. Box 81561-80100,
Mombasa.

The project also has offices/branches as follows:

- Taita Taveta County
- Lamu County
- Kwale County
- Tana River County

Contacts: The following are the project contacts

Telephone: (254) 0773738502
E-mail: kcdp@kcdp.co.ke
Website: www.kcdp.co.ke

1.2 Project Information

Project Start Date:	17th November 2010
Project End Date:	30th June 2017
Project Manager:	Dr Jacqueline Uku
Project Sponsor:	GLOBAL ENVIRONMENTAL FUND

1.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the Ministry of Agriculture, Fisheries and Livestock Development/State Department of Fisheries
Project number	TF97578
Strategic goals of the project	The strategic goals of the project are as follows: (i) To improve management effectiveness and enhance revenue generation of Kenya's coastal and marine resources (ii) To strengthen conservation and sustainable use of marine and coastal biodiversity
Achievement of strategic goals	The project management aims to achieve the goals through the following means: (i) Revenue generation to GOK from near shore and EEZ fisheries; (ii) Targeting direct project beneficiaries of which 35% are female; (iii) Three (3) conservation areas brought under effective management (including co-management) as defined by Management Effectiveness Tracking Tool (METT) score of at least 55; (iv) Twenty (20) vessels licensed to fish in the Kenyan waters with Vessel Monitoring System installed ; (v) Development of 3 Fishery Management plans; (vi) Establishing the stock status of 3 key exploited fisheries species; (vii) Target areas (10,000 ha) with annually updated geo-referenced biodiversity data; (viii) Three (3) Management Plans (MPs) developed or updated; (ix) Biodiversity management information system developed, populated and updated annually; (x) Ten (10) successful community based interventions documented and disseminated; (xi) One (1) coast region, 2 county, 8 ward level land capability plans or maps developed; (xii) 85 officers from lead agencies trained on ICZM & EIA (including EIA certification); (xiii) 3 Annual environmental and social audits for KCDP supported projects undertaken; (xiv) Two hundred (200) entrepreneurs identified, trained, and with

	business plan developed; (xv) Two hundred (200) of HMP subprojects completed or operational; and (xvi) Development and implementation of a communication strategy.
Other important background information of the project	The project is implemented by seven (4) agencies of the Government of Kenya (GoK), comprising of Kenya Marine and Fisheries Research Institute (KMFRI), the State Department of Fisheries (SDF), Kenya Wildlife Service (KWS) and Kenya Forestry Research Institute (KEFRI), The activities of these agencies, within the KCDP project, are coordinated by a centralized Project Coordinating Unit (PCU) based at the Kenya Marine and Fisheries Research Institute (KMFRI).
Current situation that the project was formed to intervene	The project was formed to intervene in the following areas: (i) **Component 1: Sustainable Management of Fisheries Resources** with the objective of increasing revenue earning potential of GoK through sound monitoring, control and surveillance and a transparent process of licensing of foreign vessels. Other goals are to promote research for value addition, market chain analysis, alternatives beyond reef fishing, aquaculture and overall improvement of fisheries governance; (ii) **Component 2: Sound Management of Natural Resources** which aims to improve the sound management and regeneration of natural resources and biodiversity in the coastal and marine environment as well as provide assistance to communities in the development of eco-tourism ventures;
Project duration	The project started on 1st July 2011 and closed on 30th June 2017

1.4 Bankers

The following are the bankers for the current year:

(i) Standard Chartered Bank, Treasury Square Branch

(ii) Co-operative bank, Ukulima Branch

1.5 Auditors

The project is audited by the Office of the Auditor-General

1.6 Roles and Responsibilities

The following are key persons in the project management.

Names	Title designation	Key qualification	Responsibilities
Prof. James Njiru	Director, KMFRI	PHD	Project Supervision
Dr. Jacqueline Uku	Project Manager	PHD	Project Management
Ms.Nabwire.M. Elizabeth	FMS	CPA (K), BCOM	Finance Management

1.7 Funding summary

The Project is for duration of 6 years from 2010 to 2016 with an approved budget of US$ 5M equivalent to Kshs 500Million as highlighted in the table below:

Below is the funding summary:

Source of funds	Donor Commitment-		Amount received to date – (30 June 2017)		Undrawn balance to date (30 June 2017)	
	USD	*Kshs*	USD	*Kshs*	USD	*Kshs*
	(A)	*(A')*	*(B)*	(B')	*(A)-(B)*	*(A')-(B')*
Grant						
GEF	5,000,000	500,000,000	5,000,000	488,727,476	-	-

1.8 Summary of Overall Project Performance:

- Budget performance against actual amounts for current year and for cumulative to-date,

CURRENT YEAR 2016/2017		CUMULATIVE TO DATE	
Budget	**Actual**	**Budget**	**Actual**
Kshs.	**Kshs.**	**Kshs.**	**Kshs.**
125,752,382	102,386,674	488,727,476	449,506,343

- Physical progress based on outputs, outcomes and impacts since project Commencement.

KENYA COASTAL DEVELOPMENT PROJECT	
Project Development Objective: To improve management effectiveness and enhance revenue generation of Kenya's coastal and marine resources **Global Environment Objective**: To strengthen conservation and sustainable use of marine and coastal biodiversity	
RESULT AREA	**ACHIEVEMENTS**
Indicator One: Revenue generation to GOK from near shore and EEZ fisheries	USD 4.086m raised in revenue Activities carried out which contributed to increase in revenue generation include licensing of vessels, frame survey, patrols and port state measures. Frame surveys information was used to enhance the licensing of vessels used in in-shore areas. Enforcement patrols and sensitization were also carried out contributing to increase in revenue generation.
Indicator Two: Direct Project Beneficiaries (number), of which female (%)	46% females The range of beneficiaries are drawn from communities running woodlots and tree nurseries, participants in ICZM Training and EIA Training, SMEs capacity building, staff capacity building, HMP sub-projects, scholarships and internships for coastal students, sea weed farming, aquaculture (fin fish farming, BMU training, beach inspectors workshop, Fish quality, processing and marketing, community managed areas, tour guide training, biodiversity assessment training, school enrolment in classrooms supported by the project, paved

	road users and clients of Kinondo banking hall. Further to the direct beneficiaries, the indirect beneficiaries for HMP alone are estimated at approximately 350,000 people
Indicator Three: Number of conservation areas brought under effective management (including co-management) as defined by Management Effectiveness Tracking Tool (METT) score of at least 55	The protected areas targeted brought under effective management are Shimba Hills, Kisite-Mpunguti and Malindi. Shimba Hills has METT score increased from 54 to 58; Kisite score has increased from 51 to 58 and Malindi score increased from 51 to 56. The activities that have contributed to the increase in METT score include Biodiversity Assessments; use of Night vision cameras to enhance security; development/review of Management plans; Strategic Adaptive Management (SAM) programme ; Staff training and Implémentation of projects that enhance conservation and community welfare
Indicator Four: Areas outside the protected areas brought under improved management	50 Ha 50 hectares of land has been brought under improved management through establishment of seed stands, 27 Ha in Gede, 4 Ha in Mpeketoni and 16 Ha in Witu; 2 ha Comensum and Amani Jipange mangrove conservation.
Indicator Five: Number of coastal households with annual earnings of 50 USD or more from commercial NRM activities supported by the project	792 Households This includes households which have earned over 50USD (approximately Ksh 5,000) from sale of sea weeds (KShs. 1.3 Million); fin fish (Kshs. 157,000); Poles (Kshs. 1.43 Million); tree seedlings (Kshs. 4.5 Million) waste management (Kshs. 640,000) and ecotourism (350,000).
Intermediate Result Indicators (Component One): Sustainable Management of Fisheries Resources	
Intermediate Result indicator One: Number of vessels licensed to fish in the Kenyan waters with Vessel Monitoring System (VMS) installed	38 vessels Vessel Monitoring System (VMS) already set up in SDF office and is operational.
Intermediate Result indicator Two:	3 plans

Number of species with Fishery Management plans developed	Ring Net Management and Lobster Management Plans and Aquarium Fisheries Management plans completed.
Intermediate Result indicator Three: Number of key exploited species with stock status established	5 species Selection and prioritization of key commercial species using SICA framework (13 selected and five prioritized - Lobster, Aquarium, Small and Medium pelagic, Seganus suta and prawns. Standard Operation Procedures for the stock assessment developed; Stock assessment for the five species has been completed with fact sheets available
Intermediate Result Indicators (Component Two): Sound Management of Natural Resources	
Intermediate Result indicator One: Target areas with annually updated geo-referenced biodiversity data	25,000 HA assessed Biodiversity assessments done in Shimba Hills Ecosystem, Kisite-Mpunguti Marine Park and Reserve and its environs; Lamu, Lake Kenyatta and Lake Jipe (Taita); Update assessments done in South Coast (marine environment) and Shimba Hills (terrestrial environment).
Intermediate Result indicator Two: Number of Management Plans (MPs) developed or updated	4 plans Two plans were developed namely Mangrove Plan and Witu Forest plan while two plans were reviewed – Kisite Mpunguti and Malindi-Watamu. In addition to these plans, two conservation and management strategies were developed for Sable Antelope and Coral Reef/Sea Grasses.
Intermediate Result indicator Three: Biodiversity management information system is developed, populated and updated annually	Implemented Consultancy to establish the system was undertaken and installation of the hardware and software done
Intermediate Result indicator Four: Number of successful community based interventions documented and disseminated	10 projects The consultancy to document the successful interventions was undertaken and dissemination to stakeholders done.

- List the implementation challenges and recommended way forward.

IMPLEMENTATION CHALLENGES	RECOMMENDED WAY FORWARD
1. There has been noticeable improvement in project performance since the Midterm Review	The Project has worked to overcome most of the challenges it faced over the formative years and since Mid Term Review it has managed to achieve most of its development objectives.
2. Insecurity experienced during the year in parts of Coast Region	This to some extent hindered implementation in parts that were most affected. However, with the National Government's relentless efforts in improving the security situation, such parts are now accessible and implementation is going on smoothly.

1.9 Summary of Project Compliance:

So far there are no significant cases of non- compliance with applicable laws and regulations.

2. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Director for Kenya Marine and Fisheries Research and the Project Manager for KCDP are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Director for Kenya Marine and Fisheries Research and the Project Manager for KCDP accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Director for Kenya Marine and Fisheries Research and the Project Manager for KCDP are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended June 30, 2017, and of the Project's financial position as at that date. The Director for Kenya Marine and Fisheries Research and the Project Coordinator for KCDP further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

The Director for Kenya Marine and Fisheries Research and the Project Manager for KCDP confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements

The Project financial statements were approved by the Director Kenya Marine and Fisheries Research and the Project Coordinator for KCDP on 8th December 2017 and signed by them.

Director

Project Manager

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA COASTAL DEVELOPMENT PROJECT GEF GRANT NO. TF 097578 FOR THE YEAR ENDED 30 JUNE 2017 – KENYA MARINE AND FISHERIES RESEARCH INSTITUTE

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Kenya Coastal Development Project GEF No. TF 097578 set out on pages 12 to 32 which comprise the statement of financial Grant assets and liabilities as at 30 June 2017 and the statement of receipts and payments, statement of cash flows, and statement of comparative 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, Section 35 of the Public Audit Act, and Grant Agreement No. TF 097578 dated 17 November 2010 between the Republic of Kenya and International Bank for Reconstruction and Development (IBRD). 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, the financial statements present fairly, in all material respects, the financial position of Kenya Coastal Development Project GEF No. TF 097578 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 (Cash Basis) and comply with Grant Agreement No. TF 097578 dated 17 November 2010.

In addition, the special accounts statement presents fairly, transactions for the year and the closing balance has been reconciled with the books of accounts.

Further, I confirm that public money has been applied lawfully and in an effective way as per Article 229(6) of the Constitution.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Coastal Development Project GEF No. TF097578 management 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 opinion.

Emphasis of Matter

Low Absorption of Funds

I draw attention to Note 10.2 to the financial statements which indicates that the Kenya Coastal Development Project-GEF Grant No.TF 097578 received a total of Kshs.488,727,476 for six years up to 30 June 2017 (2011-2017). However, the project returned Kshs.4,813,549 to the designated account at the closure of the project on 30 June 2017. The under absorption of Kshs.4,813,549 may have curtailed implementation of critical activities and delivery of services to the residents of Coast region.

Although the management indicated that the under absorption was occasioned by factors beyond their control, such as project restructuring, slow disbursement of funds and insecurity in some parts of Coast, it implies that the Grant to the Government of Kenya did not fully achieve its objectives.

My opinion is not qualified in respect of this matter.

Key Audit Matters

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

Management's Responsibility 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 (Cash 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 Project's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to have the Project cease operations, or have no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Project's financial reporting process.

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.

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 Project'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 Project's ability to continue as a going concern. 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 Project to cease to continue as a going concern.

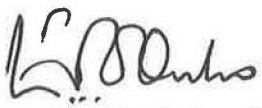
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Project to express an opinion on the financial statements.

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

21 December 2017

4. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30 JUNE 2017

		2016/2017	2015/2016	Cumulative
RECEIPTS		Ksh.	Ksh. Restated	Ksh. Restated
Loan from external development partners	10.2	30,939,798	186,285,457	488,727,476
Total receipts		**30,939,798**	**186,285,457**	**488,727,476**
PAYMENTS				
Purchase of goods and services	10.3	74,930,515	100,218,794	363,500,345
Acquisition of non-financial assets	10.4	27,456,159	57,707,072	86,005,998
TOTAL PAYMENTS		**102,386,674**	**157,925,866**	**449,506,343**
SURPLUS/DEFICIT FOR THE YEAR		**(71,446,876)**	**28,359,591**	**39,221,133**

Director KMFRI

Date: 8/12/17

Project Manager

Date: 8th Dec 2017

5. STATEMENT OF FINANCIAL ASSETS AND LIABILITIES AS AT 30 JUNE 2017

FINANCIAL ASSETS

		2016/2017 Kshs	2015/2016 Kshs Restated
Cash and Cash Equivalents			
Bank Balances	10.5A	38,529,193	172,890,744
Cash Balances	10.5B	194,542	476,481
Outstanding Imprest	10.5C		79,337
Inter Project Advances	10.5D	4,536,957	6,793,640
Inter Project Borrowings	10.5E	(4,039,559)	(69,572,193)
TOTAL FINANCIAL ASSETS		**39,221,133**	**110,668,009**
REPRESENTE BY:			
Cash and cash equivalents b/fwd		110,668,009	82,308,418
Surplus/Deficit for the year		(71,446,876)	28,359,591
NET FINANCIAL POSITION		**39,221,133**	**110,668,009**

**Accounts Restatement see Note 10.6*

Director/KMFRI

Date

Project Manager

8th Dec 2017

Date

6. STATEMENT OF CASHFLOW FOR THE YEAR 30 JUNE 2017

	2016/2017 Kshs	2015/2016 Kshs Restated
PAYMENTS FOR OPERATING EXPENSES		
Purchase of Goods & Services	74,930,515	100,218,794
Acquisition of Non-Financial Assets	27,456,159	57,707,072
Net cash flow from operating activities	**102,386,674**	**157,925,866**
CASHFLOW FROM BORROWING ACTIVITIES		
Proceeds from Foreign Borrowings	30,939,798	186,285,457
Net cash flow from financing activities	**30,939,798**	**186,285,457**
NET INCREASE IN CASH AND CASH EQUIVALENT	**(71,446,876)**	**28,359,591**
Cash and cash equivalent at BEGINNING of the year	**110,668,009**	**82,308,418**
Cash and cash equivalent at END of the year	**39,221,133**	**110,668,009**

Director/KMFRI

8/12/17
Date

Project Manager

8th Dec 2017
Date

7. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Variance	% of Variance
	A	B	c=a+b	D	e=c-d	f=e/c %
Receipts						
Proceeds from borrowings - External Sources	125,752,382	0	125,752,382	30,939,798	94,812,584	75%
Total Receipts	**125,752,382**	**0**	**125,752,382**	**30,939,798**	**94,812,584**	75%
Payments						
Purchase of goods and services	93,105,867	0	93,105,867	74,930,515	18,175,352	20%
Acquisition of non-financial assets	32,646,515	0	32,646,515	27,456,159	5,190,356	16%
Total Payments	**125,752,382**	**0**	**125,752,382**	**102,386,674**	**23,365,708**	**19%**

Director/KMFBI

Date 8/12/17

Project/ Manager

Date 8th Dec 2017

8. STATEMENT OF SPECIAL (DESIGNATED) ACCOUNT RECONCILIATION FOR THE YEAR ENDED 30 JUNE 2017
GRANT NO: TF NO 097578 – KE - IBRD
COOPERATIVE BANK OF KENYA, NAIROBI
BANK ACCOUNT NO: 02120134490200
CURRENCY: USD

No		USD
1	Amount advanced by GEF	4,741,458.36
2	**Less:** Total amount documented	3,764,649.25
3	**Outstanding amount to be documented**	**976,809.11**
	Represented by:	
4	Ending Special account balance as at 30th June 2017	
5	Amounts claimed but not credited as at 30th June 2017	
6	Amounts withdrawn and not claimed	976,809.11
7	Service Charges (if not included in lines 5 and 6 above)	
8	Interest earned (if included in Special Account)	
9	**Total advance to Special Account year ended 30 June 2017**	**976,809.11**
	Discrepancy between total appearing in line 3 and 9	-

The amount appearing on line 6 is eligible for financing by Worldbank and shall be documented in subsequent IFRs (The Project closed on 30th June 2017)

9. SPECIAL ACCOUNT STATEMENT FOR THE PERIOD ENDING 30 JUNE 2017
GRANT NO: TF NO 097578 – KE – IBRD
COOPERATIVE BANK OF KENYA, NAIROBI
BANK ACCOUNT NO: 02120134490200
CURRENCY: USD

	USD
Part A - Account Activity	
Beginning balance of 1st July, 2016 as per CBK Ledger Account	**1,428,150.17**
Add:	
Total Amount deposited by World Bank	**296,254.76**
Total Interest earnings if deposited in account	-
Total amount refunded to cover ineligible expenditure	-
Deduct	
Total amount withdrawn	**1,724,404.93**
Total service charges if not included above in amount withdrawn	-
Ending balance on 30th June 2017	-

NOTE: *The ending balance as per Central Bank of Kenya Ledger Account and the offshore Special Account as at 30th June, 2017 have been reconciled and a copy of the supporting Reconciliation Statement is attached.*

10. NOTES TO THE FINANCIAL STATEMENTS

The principal accounting policies adopted in the preparation of these financial statements are set out below:

10.1 Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) with particular emphasis on Cash Basis Financial Reporting under the Cash Basis of Accounting. The financial statements comply with and conform to the form of presentation prescribed by the Accounting Standards Board of Kenya.

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the Project and all values are rounded to the nearest one Shilling. The accounting policies adopted have been consistently applied to all of the years presented.

The financial statements have been prepared on the cash basis following the Government's standard chart of accounts. The cash basis of accounting recognises transactions and events only when cash is received or paid out by the Project.

i. **Recognition of revenue and expenses**

The Project recognises all revenues from the various sources when the event occurs and the related cash has actually been received by the Project. In addition, the Project recognises all expenses when the event occurs and the related cash has actually been paid out by the Project.

ii. **In-kind donations**

In-kind donations are contributions made to the Project in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value of in-kind donations can be reliably determined, the Project includes such value in the statement of receipts and payments both as revenue and as an expense in equal and opposite amounts; otherwise, the donation is not recorded.

iii. **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are

subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which had not been surrendered or accounted for at the end of the financial year.

iv. **Pending bills**

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they are simply disclosed as an Annex to the financial statements. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

v. **Budget**

The budget is developed on the same accounting basis (cash basis), the same accounts classification basis, and for the same period as the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. A high-level assessment of the Project's actual performance against the comparable budget for the financial year under review has been included in an annex to these financial statements.

vi. **Exchange rate differences**

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates, Kenya Shillings. Transactions in foreign currencies during the year are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of receipts and payments.

vii. **Comparative figures**

Where necessary comparative figures for the previous financial year have been restated to conform to the required changes in financial statement presentation.

viii. **Restatement**

The 2015/2016 Financial Statements has been restated on the following balances

- **Cash and Cash Equivalent b/f:** Being expenditure of Kshs 975,500 paid by GEF on behalf of IDA in 2015/2016 and captured as an advance when IDA refunded GEF. This led to an increase in expenditure.

- **Surplus for the year:** Being amount of Kshs 975,500 captured as expenditure in FY 2015/2016

ix. **Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017.

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 8th Dec 2017 and signed by:

Director/KMFRI

8/12/17
Date

Project Manager

8th Dec 2017
Date

10.2 PROCEEDS FROM DOMESTIC AND FOREIGN GRANTS

During the 12 months ending 30 June 2017, USD 296,259.76 was transferred to the Project Designated Account equivalent of Kshs 30,483,470.25. The National Treasury transferred Kshs.175, 328,922.40 to the project account. An exchange gain from the translation of the funds in the designated account was Kshs.456, 328.03.

Name of Donor	Date received	Amount in loan currency	Loans received in cash			Total amount in Kshs			Cumulative
			FY 2016/2017	FY 2015/2016	FY 2014/2015	FY 2013/14	FY 2012/13	FY 2011/12	
		USD	Kshs.	Kshs	Kshs	Kshs	Kshs	Kshs	
GEF				42,887,109					42,887,109
GEF				42,931,001					42,931,001
GEF				67,149,710					67,149,710
GEF	16/3/2017	296,259.76	30,483,470	33,132,660	68,139,037	74,271,141	72,515,003	40,466,314	319,007,625
Exchange Gains			456,328	184,975	15,020,554	1,326,174			16,988,031
Refunds							-236,000		-236,000
Total		**296,259.76**	**30,939,798**	**186,285,455**	**83,159,591**	**75,597,315**	**72,279,003**	**40,466,314**	**488,727,476**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10.3 PURCHASE OF GOODS AND SERVICES

	2016/2017 Kshs	2015/2016 Kshs	Cumulative Kshs
Utilities, supplies and services	153,146	403,615	5,432,379
Communication, supplies and services	1,152,034	213,874	5,136,311
General Office Supplies	1,983,031	688,988	2,672,019
Domestic travel and subsistence	46,359,624	65,791,912	243,335,462
Foreign travel and subsistence	-	577,801	8,049,791
Printing, advertising and	2,025,636	190,003	2,849,148
– information supplies & services	117,002	291,900	408,902
Rentals of produced assets	1,262,505	1,128,755	2,502,610
Training expenses	3,102,926	2,939,875	12,663,006
Hospitality supplies and services	168,450		168,450
Specialized materials and services	-	6,425,943	18,272,405
Other operating expenses	639,112	9,366,423	27,280,425
Refined Fuel & Lubricants	2,739,677	629,024	3,368,701
Routine maintenance:- Motor vehicles and other transport Equipment	1,748,546	904,482	7,215,713
Routine maintenance:- other assets	238,880	8,800	247,680
Contracted Professional Services	13,239,946	10,657,399	23,897,345
Total	**74,930,515**	**100,218,794**	**363,500,347**

10.4 ACQUISITION OF NON-FINANCIAL ASSETS

	2016/2017 Kshs	2015/2016 Kshs	Cumulative Kshs
Purchase of office furniture & general equipment	-	56,742,987	56,759,987
Purchase Of Seeds, Breeding Stocks & Live Animals	-	964,085	1,789,852
Purchase of Boats	5,846,926	-	5,846,926
Purchase of ICBIMS Equipment	8,516,573	-	8,516,573
Purchase of Furniture	793,603	-	793,603
Renovation of ICIBIMS Server Room	1,139,980	-	1,139,980
Renovation of Lukore Fence - Materials & Labour	8,266,761	-	8,266,761
Renovation of Shedrick Falls - Materials & Labour	2,147,316	-	2,147,316
Purchase of Laptops/Computers	745,000	-	745,000
	27,456,159	**57,707,072**	**86,005,998**

10.5A Bank Accounts

	2016/2017 Kshs	2015/2016 Kshs Restated
Foreign Currency Accounts		
Co-operative Bank of Kenya [A/c No 02120134490100]		144,389,124
Total Foreign Currency balances		**144,389,124**
Local Currency Accounts		
Standard Chartered Bank:		
GEF Master Account	34,495,766	668,699
KMFRI Account	862,264	1,393,567
KWS Account	3,368	11,953,550
KEFRI Account	1,288	2,483,068
SDF	3,166,507	7,536,181
Funds in Transit		4,466,555
Total local currency balances	**38,529,193**	**28,501,620**
Total bank account balances	**38,529,193**	**172,890,744**

10.5 B Cash at hand

	2016/2017 Kshs	2015/2016 Kshs
SDF	126,271	476,481
KWS	54,101	-
KEFRI	14,000	-
KMFRI	170	-
	194,542	**476,481**

10.5C. Outstanding Imprest

	2016/2017 Kshs	2015/2016 Kshs
KEFRI	-	79,337
	-	**79,337**

10.5D. Inter Project Advances

	2016/2017	2015/2016
	Kshs	Kshs
Advance to KEFRI Institute	174,820	577,640
Funds transfer to IDA master account	-	6,216,000
Advance from KWS IDA	89,600	-
Advance from SDF & Blue Economy	2,180,307	-
Advance to PMU	2,092,230	-
Total	**4,536,957**	**6,793,640**

The borrowings were necessitated to fast track GEF project activities when the GEF account didn't have sufficient funds.

10.5E. Inter Project Borrowings

	2016/2017	2015/2016
	Kshs	Restated - Kshs
Advance from IDA	(800,000)	(7,530,436)
Advance from IDA –KMFRI	-	(2,000,000)
Advance from IDA – KEFRI	(539,757)	(539,757)
Funds from GOK Counterpart	-	(25,000,000)
Funds from GOK Counterpart	-	(34,500,000)
Excess funding by the Ministry	(2,000)	(2,000)
Borrowing from IDA – PCU	(2,697,802)	-
Total	**(4,039,559)**	**(69,572,193)**

The borrowings were necessitated to fast track GEF project activities which were paid for by IDA.

10.6 Restatement:

	2015/2016 KSHS
Restated Surplus	
Surplus	27,384,091
Add back: IDA Expenditure reported under GEF	975,500
Restated Surplus Balances	**28,359,591**

	2015/2016 KSHS
Restated Cash and Cash Equivalents	
Surplus	109,692,509
IDA Expenditure reported under GEF	975,500
Restated Cash and Cash Equivalent	**110,668,009**

** Refer to explanation on page 20*

ANNEX 1: EXCHANGE GAINS

	2016-2017		
	USD	**SPOT RATE**	**KSHS**
Balance b/f	**1,428,150.17**	**101.1022**	**144,389,124**
Transfer from Worldbank	296,259.76	102.8944	30,483,470
Total Funds Available	**1,724,409.93**		**174,872,594**
Disbursed to GEF Master	1,428,000.00	101.29	144,642,120
Disbursed to Gef Master	296,404.93	103.53	30,686,802
Total Disbursed	**1,724,404.93**		**175,328,922**
Balance as per transaction rate			**456,328**
Balance as per closing rate			**-**
Exchange Gains			**456,328**

ANNEX 2: DETAILED ACTIVITY BUDGETS VS ACTUAL EXPENDITURE

KEFRI

Activity	Budget	Actual	Variance	Remarks
Maintenance of 16.9 hectares of rehabilitated sites (River Lumi, River Ramisi, Kasigau, Kilibasi, Mackinnon, Voi and Samburu)	706,270	697,809	8,461	
Operations Costs (KEFRI)	1,528,700	1,655,969	(127,269)	The budget overrun is due to increase of motor vehicle repair costs
Biophysical characterization and biodiversity assessment	567,236	1,013,200	(445,964)	The budget overrun due to an oversight in KEFRI requirement to have the final report reviewed and edited by the Editorial committee before final printing of the report.
Establishment and Maintenance of Seed Stands	1,654,085	1,283,663	370,422	Reallocated to Operations Ks. 127,269.20 and to Biophysical characterization and biodiversity assessment Ksh. 243,153
Nursery Management and Training	220,925	218,539	2,386	
Support to community nursery groups	55,694	55,680	15	
Total	**4,732,910**	**4,924,860**	**(191,949)**	

KENYA WILDLIFE SERVICES

Activities	Budget	Expenditure	Variance	Comments
	Ksh.	Ksh.	Ksh.	
Renovation of Sheldrick Falls	3,144,551	3,159,150	(14,599)	
Consultancy To assess Capacity and establish coastal Biodiversity Information System In Mombasa - Consultancy Fee and other activity costs not met by consultant	8,972,284	3,076,212	5,896,072	Balance to be used in paying consultant
ICBMS Workshops and Stakeholders engagements	2,000,000	588,686	1,411,314	
Consultancy to assess and document successful community based projects - Consultancy fee and other direct costs not met by consultant	3,000,000	901,334	2,098,666	Pending bill of Ksh. 1,650,000
Procure hardware and software for establishing Biodiversity information management system	11,140,000	9,985,938	1,154,062	Pending bill of Ksh. 716,184
Procurement of Computers	800,000	745,000	55,000	
Lukore Fence	10,000,000	9,997,400	2,600	
Printing of Witu Management plan	551,000	551,000	-	
Printing of Kisite Management plan	551,000	551,000	-	
Review of Watamu management plan	1,024,680	999,480	25,200	
Printing of Watamu Management plan	449,000	-	449,000	Balance to be used to pay pending bill of Ksh. 437,171
Printing of Malindi Management plan	406,000	-	406,000	Balance to be used to pay pending bill of Ksh. 406,000
Operations	1,956,625	1,784,023	172,602	
Total	**43,995,140**	**32,339,223**	**11,655,917**	

KENYA MARINE AND FISHERIES RESEARCH INSTITUTE

ACTIVITIES	BUDGET	ACTUAL	VARIANCE	COMMENTS
Installation of Mooring Bouys	2,765,450	2,747,650	17,800	
Beach seine Fishery rapid assessment in Lamu	985,265	982,900	2,365	
Capacity building (Training) for long term stock assessment	940,000	939,000	1,000	
Ringnet fishing nets for Shimoni BMU	1,300,000	16,690	1,283,310	Pending bill of Ksh. 1,112,380
Upscaling of sea weed (minimum support, EMP and monitoring)	1,930,000	1,929,218	782	
Upscaling of Finfish/shellfish (minimum support, EMP and monitoring)	1,892,291	1,538,930	353,361	
County engagement in Aquaculture	955,200	954,077	1,123	
Artemia up scaling	1,256,350	1,225,075	31,275	
Operations	2,000,000	1,950,080	49,920	
Mapping of coastal & marine critical biodiversity/conservation areas in Kwale, Kilifi & Mombasa	12,703,261	13,536,376	(833,115)	
Dissemination of information to sensitize communities on research findings & recommendations for management (printing of documents & dissemination workshops)	600,000	597,900	2,100	
CMA Boat and Equipment	1,995,220	1,897,611	97,609	
Participatory pilot restoration of a degraded coral reef and see grass habitats in Kilifi and Kwale Counties (including baseline data)	3,500,000	3,498,906	1,094	
Finalize Mangrove Management Plan (county disclosure, printing & launch)	3,238,351	2,985,508	252,843	
TOTAL	**36,061,388**	**34,799,921**	**1,261,466**	

STATE DEPARTMENT OF FISHERIES

	Ksh.	Ksh.	Ksh.	
Activities / Sub-Activities	**Budget**	**Actual**	**Variance**	**Comments**
Preparation of financial plans for 15 BMUs in Malindi-Ungwana Bay and Shimoni -Vanga CMAs	2,194,160	2,194,160.00	-	
Presentation of Malindi-Ungwana Bay and Aquarium Fishery management plans to County Executives and Intergovernmental Secretariat(IGS)	1,989,335	1,989,335	-	
Documentation of Revenue generation evidence from the counties.	500,000	500,000	-	
Operations cost	2,476,575	2,439,367	37,208	
Dissemination of CAS and Frame survey results to counties	2,267,005	2,241,716	25,289	
CAS data analysis and report writing	775,491	775,491	-	
Supervision of installation and monitoring of Shimoni/Kibuyuni fish bandas and Shimoni/ Faza Ice plants during the six months of default liability	2,198,000	1,923,080	274,920	
Operationalization of Shimoni business Plan	1,268,310	1,259,172	9,138	
CMA Consultancy - Shimoni/Vanga	12,900,000	8,951,383	3,948,617	

Two Boats Malindi/Ungwana Bay and Shimoni Vanga CMA	5,566,744	4,268,239	1,298,505	
FADs	400,000	400,000	-	
Finalization of Aquarium Fishery Management plan	1,126,695	1,126,695	-	
Fabrication and trials of artisanal prawn gear in Malindi - Ungwana Bays	1,143,000	1,131,010	11,990	
Finalization Maps on Fishery and gear interactions	465,000	453,580	11,420	
FAD final steering committee meeting	50,000	49,442	558	
Basket Trap Consultancy	1,550,000	620,000	930,000	Pending bill of Ksh. 930,000
Total	**36,870,315**	**30,322,670**	**6,547,646**	

ANNEX 3 : LIST OF PENDING BILLS

NO	ACTIVITY	AMOUNT
1.	SUPPLY OF RINGET FISHING NETS	1,112,380
2.	PRINTING OF WATAMU MANAGEMENT PLAN	449,000
3.	PRINTING OF MALINDI MANAGEMENT PLAN	406,000
4.	SUPPLY OF ICBIMS HARDWARE AND SOFTWARE	716,184
5.	CONSULTANCY TO DOCUMENT SUCCESSFUL COMMUNITY PROJECTS	1,650,000
6.	CONSULTANCY TO ASSESS CAPACITY AND ESTABLISH ICBIMS SYSTEM	5,896,072
7.	CMA CONSULTANCY	3,948,617
8.	BASKET TRAP CONSULTANCY	930,000
	TOTAL	**15,108,253**