

# **REPORT OF THE AUDITOR-GENERAL ON KENYA AIRPORTS AUTHORITY 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 Airports Authority set out on pages 36 to 75, which comprise the statement of financial position as at 30 June, 2019, and the statement of profit and loss and other comprehensive income, statement of changes in equity, 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 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 Airports Authority as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards, and comply with the Public Finance Management Act, 2012 and the Kenya Airports Authority Act, Cap.395.

### **Basis for Qualified Opinion**

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

As disclosed under Note 31 to the financial statements, the statement of financial position reflects property, plant and equipment balance of Kshs.49,207,591,000; (2018 - Kshs.50,360,119,000). Included in this figure is freehold land and leasehold land balances of Kshs.249,263,000; (2018-Kshs.249,263,000) and Kshs.5,346,369,000; (2018-Kshs.5,415,624,000) respectively. Examination of the land balances and the supporting records revealed the following unsatisfactory observations:

##### **1.1. Leasehold Land at Nairobi – Embakasi**

As reported previously, the leasehold land balance excludes the value of land LR No. 9042/668 measuring 3.29 acres located at Nairobi - Embakasi Village of undetermined value. Although Management has explained that the parcel of land on which the Kenya Airport Authority police station is located will be surrendered to the Kenya Police Service, documents and correspondences in evidence of the surrender and its consideration have not been availed for audit review. In the circumstances, it has not been possible to establish the validity and legitimacy of the surrender.

##### **1.2. Freehold Land Balance at Kisumu International Airport**

As reported in 2017/2018, included in the freehold land balance is the cost of acquisition of land amounting to Kshs.190,763,189 for the expansion of Kisumu

International Airport. However, the supporting documents have not been availed for audit review.

### **1.3. Duplicate Title Deeds for Kisumu International Airport**

Records available at the Headquarters revealed that the Authority had two title deeds for the Kisumu International Airport but with different acreage namely; L.R. No. Municipality/Block No.1/8 and No.1/21 measuring 206.09 and 362.9 hectares respectively. However, no satisfactory explanations have been provided for the duplicity.

### **1.4. Land Without Title Deeds**

Two parcels of land occupied by Manda and Ukunda Airstrips under leasehold and freehold tenures valued at Kshs.135,800,000 and Kshs.58,500,000 respectively did not have title deeds. Although Management explained that the title deed for Ukunda Airstrip had been with the Ethics and Anti-Corruption Commission (EACC) since September, 2008, there is no evidence of follow up action being taken to retrieve the title deed.

### **1.5. Moi International Airport Land**

Moi International Airport leasehold land balance recorded in the books amounted to Kshs.583,000,000 which differs with the valuation report amount of Kshs.538,000,000 resulting to an unexplained variance of Kshs.45,000,000. Further, Management has not explained nor remedied the gaps in the lease registration documents (stamping) on the original title deed L.R.No.MN/VI/3888 for the period between June, 2003 to May, 2006.

### **1.6. Parcels of Land in Dispute**

Various parcels of land owned by the Authority continue to have disputes as detailed out below: -

#### **1.6.1. Nairobi - Embakasi**

An unregistered parcel of land referenced KAA-D1-DA measuring 0.867 acres at Embakasi Village and valued at Kshs.4,335,000 has not been incorporated in the leasehold land balance as at 30 June, 2019. Information available indicates that the Authority obtained partial allotment for the land parcel measuring 0.443 acres from the National Land Commission on 25 September, 2017. The remainder part measuring 0.47 acres has been illegally excised and allocated to a third party. Although Management has written to the Commission requesting for investigation of the illegal excision, there is no evidence of follow up and its outcome.

#### **1.6.2. Jomo Kenyatta International Airport**

Two parcels of land L.R.No.13512 and L.R.No.14231 within the original Jomo Kenyatta International Airport land parcel L.R.No.21919 have been excised and allocated to third parties. Although court proceedings were instituted vide HCCC Nos. 206 and 489 both of 2004 and temporary orders issued restraining the third parties, the latter proceeded to subdivide, resell and develop the land parcels. To vacate the land, the Authority demolished the illegal structures in 2011. The private developers subsequently sued the Authority for which the outcome was yet to be determined as at the time of finalizing the audit.

### 1.6.3. Wilson Airport

Wilson Airport land L.R.No.209/144443 whose size and value are yet to be determined was registered in favour of the Authority on 29 July, 2003. However, a case challenging the registration was filed in the High Court. The plaintiffs sought temporary injunction restraining the Authority or their agents from demolishing or otherwise interfering with their ownership or possession or right of use of the parcel of land until hearing and determination of the suit. Information available indicates that in 25 October, 2006, the court declined to issue the injunction orders sought. Although Management has indicated they wrote to the National Land Commission on 24 October, 2017 requesting it to intervene and revoke irregularly issued title, as at 30 June, 2019, no action had been taken and therefore, ownership of the property remained in dispute.

### 1.6.4. Malindi Airport

As reported in the prior years, the leasehold land balance also includes a portion of Malindi Airport land under L.R.No.7669 measuring 0.8925 hectares, allocated to a church organization. On the other hand, land L.R.No.8540 at the Airport measuring 0.0549 hectares and allocated to a petroleum company has been excluded from the balance.

### 1.6.5. Airports and Airstrips

A further review of records and correspondences relating to the Authority's land revealed ownership disputes affecting 85 parcels of land at eight (8) airports / airstrips as summarized below: -

No.	Airport/Airstrip	Land Reference	No. in Dispute
1.	JKIA	219191	46
2.	Wilson Airport	209/13080	8
3.	Moi Int. Airport	MV/VI/3888	10
4.	Kisumu Int. Airport	Municipality/Block No.1/21	3
5.	Kitale Airstrip	25001	2
6.	Eldoret Airstrip	Eld/Municipality/Block 10/926	13
7.	Malindi Airport	10688	1
8.	Embakasi	LR.No.9042/668 &F/R 228/88	2
<b>Total</b>			<b>85</b>

Management has not provided details on the nature and the value of land in dispute as well as the parties involved and their current status. It was also not possible to confirm if there are other parcels of land in dispute and the exposure these may have on the Authority's claim to the land.

From the foregoing, it has not been possible to confirm the accuracy and valuation of property, plant and equipment balance of Kshs.49,207,592,000 as at 30 June, 2019.

## **2. Trade and Other Receivables**

### **2.1. Kenya Airways Debt**

As disclosed under Note 34 (a) to the financial statements, the statement of financial position reflects trade and other receivables balance of Kshs.16,334,627,000; (2018 - Kshs.14,321,565,000). Included in the balance is an amount owed by Kenya Airways of Kshs.3,225,004,670 (2018 - Kshs.2,189,086,493) an increase of 33% of which, Kshs.2,364,423,905 or 73% was more than one year old. This is an indication of difficulties and inability of the debtor to settle its accounts as and when they fall due. Although adjustments for impairment have been made during the year by way of provisions of bad and doubtful debts of Kshs.556,915,000, the provision appears insufficient.

### **2.2. Staff Receivables**

An amount of Kshs.78,384,046 under staff receivables relates to amount owed by staff on account of payments made against a job evaluation outcome of 2006 subsequently rescinded by the Board of Directors. The recoverability of the amount is in doubt but no provisions have been made in the financial statements in respect of it. The staff debtors balance is net of credit balances of Kshs.56,939,731 which have not been explained or reclassified as required by Paragraph 32 of the International Accounting Standards 1 on presentation of financial statements.

### **2.3. Credit Facilities Advanced to Unqualifying Customers**

The trade and other receivables balance of Kshs.16,334,627,000 includes Kshs.23,120,885 worth of services advanced to one-time customers normally operating on cash basis and with no credit facilities with the Authority. Consequently, the recoverability of Kshs.23,120,885 remains doubtful.

### **2.4. Debtors with Credit Balances**

The reported trade and other receivables balance of Kshs.16,334,627,000 is arrived at after netting off debtors with credit balances amounting to Kshs.209,185,654 contrary to Paragraph 32 of the International Accounting Standards (IAS) 1 on Presentation of Financial Statements which requires that assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by an International Financial Reporting Standard.

Consequently, the regularity and accuracy of the reported trade and other receivables balance of Kshs.16,334,627,000 as at 30 June, 2019 could not be confirmed.

### **3. Inventories - Obsolete Stocks**

As disclosed under Note 33 to the financial statements, the statement of financial position reflects inventories of Kshs.107,655,000; (2018-Kshs.128,894,000). Included in this balance is obsolete stocks with a net value of Kshs.6,616,000 whose usefulness is in doubt and the basis for the value could not be established as the stocks were not included in the year end stock taking report.

In the circumstances, the accuracy and completeness of the reported inventory balance of Kshs.107,655,000 as at 30 June, 2019 could not be established.

### **4. Unsupported Airstrip Fund Disbursements**

As disclosed under Note 37 to the financial statements, the statement of financial position reflects Airstrip fund balance of Kshs.2,062,287,000; (2018-Kshs.2,301,413). However, a listing of airports and airstrips maintained during the year to the tune of Kshs.393,912,000 was not availed for audit review. Consequently, it was not possible to ascertain whether the funds have been utilised in an effective manner and for the intended purpose.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Airports Authority 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.

### **Emphasis of Matter**

#### **Contingent Liabilities and Disputed Pending Claims**

Note 45 to the financial statements discloses contingent liabilities arising from pending litigations, tax assessment and disputed pending claims against the Authority amounting to Kshs.46.63 Billion. Although the liabilities have not crystallized to warrant recognition in the financial statements by way of provisions, the financial impact on the Authority would be significant if the rulings would not be in its favor.

My opinion is not qualified in respect of this matter.

### **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 Matters**

## **1. Unresolved Prior Year Issues**

The following prior year audit matters remained unresolved as at 30 June, 2019: -

### **1.1. Construction Projects at Jomo Kenyatta International Airport - Greenfield Terminal Package 5**

As reported previously, the Jomo Kenyatta International Airport- Greenfield Terminal Package 5 project was awarded at a contract sum of USD.653,782,814. In addition, the supervision contract for the project was awarded at a contract price of USD.8.83 million. The new terminal building in the Project would cover a floor area of 178,000 square meters and would comprise of: fifty international and ten domestic check in positions; thirty-two contact and eight remote gates; and associated aprons with forty-five stands and linking taxiways. It was expected to handle 8.7 million passengers per annum. The terminal was to be in an environmentally sustainable building and be certified by the World Green Building Council using either LEED or green star certification processes. The project was to be implemented on design and build contract. The following inconsistencies were noted: -

#### **1.1.1. Irregular Contract Award**

Clause 5 of the Request for Proposal (RFP) documents required the contractor to secure a project financier as a condition for award. However, the employer (Authority) entered into a contract agreement on 13 November, 2013 and the contractor was given possession of the site through a letter dated 6 December, 2013 before a project financier had been identified.

#### **1.1.2. Irregular Variation of Contract Sum**

The letter of notification of award dated 16 November, 2011 stated that the contract sum of USD 653,782,814 was inclusive of all taxes. However, contract agreement entered with Authority on 13 November, 2013 indicates the sum was exclusive of 16% Value Added Tax (VAT). It is not clear why the contract sum was varied.

#### **1.1.3. Irregular Payment for Ground Breaking Expenses**

A review of the project file revealed an amount of Kshs.75,020,680 having been paid to the contractors on 9 June, 2014 and described as a contract variation. Further information available indicates that the payment was in respect of preparation of Greenfield terminal ground breaking ceremony. However, a review of the bill of quantities in the signed contract agreement revealed that there was no provision for such expenditure and it was not clear why it was charged to the project and described as contract variation.

#### **1.1.4. Nugatory Payments**

A review of the project documentation revealed that the contractor and the consultant had been paid Kshs.4,310,901,806 and Kshs.216,100,000 respectively despite there

being no evidence of work done as at 30 June, 2019. Further, a firm was contracted to provide technical advisory service on project financing at a contract price of Kshs.29,777,268 but subsequently terminated in unclear circumstances. The firm presented an invoice for Kshs.19,356,693 but after negotiations it was reduced to Kshs.7,444,882. In light of the payments having been made for work not done, the expenditure is nugatory.

#### **1.1.5. Termination of the Contract**

On 29 March, 2016, Management informed the contractor that the contract was void from the beginning and requested them to vacate the site. On the same date, the consultants were also notified of termination of their contract. No evidence has been availed to confirm that the contractor and the consultants were in concurrence with the termination by way of correspondences hence there is a likelihood of litigation.

#### **1.1.6. Legal Services**

A legal firm was appointed to represent the Authority in the disputes arising from the project termination. However, the process of identification and the terms of engagement are unclear. Further, in a special Board of Directors meeting held on 17 January, 2017 at the Authority's Headquarters, a representative of the law firm in attendance sought for authorization to seek for expertise of an international firm in quantum to conduct an analysis of the value of work undertaken by the contractor, who was claiming to have done some works. This was granted and the firm engaged for a fee of USD.1,158,520 on behalf of the Authority. It is not clear why the Management sought the services of a foreign consultant to undertake the exercise instead of using the Authority's engineers and local consultants. No progress has been communicated as at 30 June, 2019.

In the circumstances, it has not been possible to confirm if value for money has been realized from the above usage of public resources and the amounts that may become payable under the ongoing dispute.

### **1.2. Construction Works at Wilson Airport and Other Airstrips**

#### **1.2.1. Rehabilitation of Pavements at Wilson Airport**

The contract was awarded to a company at a contract sum of Kshs.298,557,714 on 2 March, 2016 for a contract period of twelve (12) months starting on 24 June, 2016 and ending on 23 June, 2017. A review of the project documentations during the year under review revealed the following unsatisfactory matters: -

#### **1.2.2. Variation of Scope**

The contract sum was revised upwards by Kshs.54,280,646 to Kshs.352,838,360 representing an 18% increment. However, a review of correspondences leading to the variation indicate that the request for variation was originated by the airport manager who was a non-project team member. Although the variation was within the allowable limits of 25% as prescribed in the Public Procurement and Asset Disposal Act, 2015,

some works in the original scope were excluded to accommodate the variation. It is not clear what the cost of the excluded works is and hence the effect on the contract sum.

### **1.2.3. Exceeded Earthworks Bill of Quantities**

A review of payment certificate number 2 dated 24 March, 2017 of Kshs.35,504,171 revealed that a total of Kshs.61,171,244 had been paid against item number 5 - earthworks which had a provisional sum of Kshs.14,558,000 in the Bill of Quantities. This indicates a 420% escalation. Information available indicates that the engineer instructed the contractor to undertake excavation for bitumen standards parking which was not provided for under the awarded scope. It was not clear why the works were undertaken without approved scope variation.

Consequently, the due process was not followed in effecting the scope variation for the earth works.

### **1.2.4. Delay in Project Implementation**

The contractor was awarded extension of time to 08 January, 2019. However, a review of the project progress report dated 21 February, 2019 indicated overall progress at 95% despite the extended project period having lapsed. The contractor was working behind schedule and cost escalations are inevitable.

## **1.3. Construction of Tseikuru Airstrip**

As reported previously, a Memorandum of Understanding (MOU) was entered into between the National Youth Service (NYS) and the Authority in November, 2012 for the construction of Tseikuru Airstrip but was not signed. The scope in the MOU entailed; Phase 1: - bush clearing, stripping of top soil, cutting and filling the formation including the drainage, as well as gravelling and base construction. However, an advance payment of Kshs.50,000,000 was made to NYS on 16 July, 2012 ahead of the preparation and signing of the MOU. Although Management has indicated the overall project work progress for the phase to have been at 85% as at 30 June, 2013, no progress reports were availed for audit review.

A review of the project in 2018/19 financial year revealed that no progress had been made despite budgetary allocations in the 2013/2014, 2014/2015 and 2015/2016 financial years of Kshs.117,993,000, Kshs.25,000,000 and Kshs.85,000,000 respectively. Management has not explained how the funds allocated in the above three financial years totalling Kshs.227,993,000 were utilized.

## **1.4. Rehabilitation of Nanyuki Airstrip- Runway, Apron and Car Park**

As reported previously, the above contract was awarded on 3 September, 2014 at a contract sum of Kshs.398,950,970 over a period of 12 months commencing 24 November, 2014. A review of the project file and other related records revealed the following unsatisfactory matters: -



#### **1.4.1. Slow Progress**

Despite the Tender Committee having granted extension of time for a period of 9 months effective the expiry date of the initial contract, a review of the latest available project progress report of 31 July, 2016 revealed overall progress of 42%. This was under one month to the expiry of the extended contract period. Subsequently, the contract was terminated on 22 August, 2016.

#### **1.4.2. Unapproved Variation of Scope - Temporary Runway**

The scope of works under the contract as per the tender documents and the signed agreement were as follows: -1500m long and 23m wide runway, approximately 11,250m<sup>2</sup> apron, approximate 2,500m<sup>2</sup> access road, and approximately 2,500m<sup>2</sup> carpark. During the tender consultative meeting of 12 November, 2014, it was agreed that phasing out of works on an active runway would pose safety challenges. The committee therefore recommended for the construction of a temporary runway to allow for full rehabilitation works without interference. However, site instructions for construction of the temporary runway and its estimated costs were not made available in the project file. Despite the contractor's request for determination of applicable rates for the new scope of works, there is no evidence of the Authority's response. There is also no evidence in the file as to whether the additional scope was presented to the tender committee for approval. In the circumstances, the basis for remunerating the contractor for the varied scope has neither been agreed nor documented.

#### **1.4.3. Inspection Report**

On 15 June, 2015, the contractor gave notice of completion of the temporary runway and proposed handing over for 17 June, 2015 with the residual section to be completed by 30 July, 2015. There was however, no correspondence in the project files to confirm if the temporary runway was indeed completed, inspected and approved for use. Further a letter dated 29 February, 2016 from Ag. General Manager (Engineering Services) to the contractor indicated that the temporary runway was in a bad state and needed repair. This notwithstanding, an amount of Kshs.142,697,378 had been paid to the contractor by 30 June, 2019.

#### **1.4.4. Contractor's Claim on Temporary Runway**

The contractor has placed a demand for settlement of Kshs.120,610,875 through its advocates, being cost of construction of the temporary runway which is approximately 30% of the original works in the signed contract. This amount being above the 25% threshold in the Public Procurement and Asset Disposal Act, 2015 should have been subjected to a competitive tendering process. The claim is awaiting settlement through arbitration after both parties agreed to have the matter settled out of court.

#### **1.4.5. Other Claims on Termination of Contract**

On 24 January, 2018, the contractor submitted a further claim of Kshs.955,275,371 for idle equipment and other costs related to the contract. However, there was no evidence in the file of Management's correspondence over the claim.

#### **1.4.6. Engagement of Mechanical and Transport Fund**

On 2 August, 2017, Management contracted Mechanical and Transport Fund (MTF) to perform grading and gravelling work on temporary runway, apron and access roads at a cost of Kshs.6,910,565. On 21 December, 2017, MTF wrote to the Authority requesting for additional payment of Kshs.3,801,793 to cater for additional equipment and staff allowances. However, Management did not avail records of the work done and amount paid to the Mechanical and Transport Fund for audit review.

From the foregoing, it has not been possible to confirm if and whether the Authority will obtain value for money from the expenditure incurred in rehabilitating the Nanyuki Airstrip.

#### **1.5. Emergency Repairs - Isiolo International Airport Runway**

As reported in 2016/2017, the contract for the above works was awarded on 10 March, 2017 at a contract sum of Kshs.82,434,788. The contract period was for three (3) months commencing 07 April, 2017. A review of the project file and procurement records revealed the following unsatisfactory matters: -

##### **1.5.1. Procurement**

On 6 February, 2017, the Ag. General Manager (Projects and Engineering Services) requested the Managing Director for approval to use restricted tender method for this contract and the same was granted. Bids were invited on 7 February, 2017 using a list of ten (10) prequalified contractors obtained from the Kenya Rural Roads Authority (KERRA) and opened on 20 February, 2017. Only 4 bidders returned their bids.

##### **1.5.2. Evaluation**

A review of the evaluation report dated 28 February, 2017 revealed that only 1 of the 4 bidders that returned their bids passed the preliminary stage. The other three firms failed the preliminary stage for lack of experience in undertaking similar works in the previous three (3) years or did not have the requisite turnover. Considering that this was a restricted tender it would appear that the prequalified list of contractors obtained from KERRA was not for a similar scope of works. Further, Section 56 of the Public Procurement and Asset Disposal Act, 2015, provides that an entity is only allowed to use registered persons from another state organ provided that the list represents all the persons registered under that category and the list is valid and obtained through a competitive process. There is no evidence to confirm that Management satisfied itself that the list obtained from KERRA was for the required category and if it included all persons registered under the said category and it was obtained through a competitive process.

##### **1.5.3. Slow Progress**

Project progress report filed and dated June, 2018 indicates an overall progress of 54% despite the contract period having lapsed in July, 2017. The contractor was thus behind schedule in project delivery but there was no evidence of recovery of liquidated damages from the contractor's payments in accordance with the contract terms. Information available also indicated that there was a change in design from the 150mm sub-base and base layers improved gravel to two 200mm layers of hand packed stone each for sub-base and base. The rate of hand packed stone is higher than that of improved gravel. Consequently, the project has since stalled due to exhaustion of contract amount.

## **1.6. Kisumu Airport Runway Contract**

As reported previously, the contract was awarded at a contract sum of Kshs.1,708,295,391 inclusive of 16% Value Added Tax (VAT). Works commenced in March, 2012, however the scope was scaled down in October, 2013 due to inadequate funding from the parent Ministry and then phased out into two: -

Phase 1 - Construction of Parallel Taxiway, cargo apron and public car park; and

Phase 2 - Runway Strengthening and Widening

Phase 1 was completed in February 2014 at a cost of Kshs.1,375,117,326 inclusive of 16% VAT against an original contract award amount of Kshs.1,708,295,391. The balance of the contract of Kshs.333,118,065 was rolled over to be utilized under Phase 2 works. On 19 August, 2015 the Authority and the contractor entered into an addendum for the Phase 2 works at a contract sum of Kshs.436,067,579.87 thereby revising the original contract sum by Kshs.102,949,515. Phase 2 works were to be executed within 28 months. On 24 May, 2016, before the works commenced, a second addendum to the contract was drawn and signed by the parties varying the contract sum by a further Kshs.143,532,200. This brought the total variation to Kshs.246,481,715 or 14.5% with the new revised contract sum standing at Kshs.1,954,777,106.

The Tender Committee approving the variation pointed out that there was erroneous omission of Kshs.190,156,845 in computation of the first variation occasioned by failure to consider the VAT component on amount paid out in Phase 1 works. However, this is unsupported. Despite the revisions of contract sum above there was reduction in the scope of works for instance, paragraph 6 of the addendum excludes heavy duty manhole covers valued at Kshs.17,933,117. Management has not rendered satisfactory explanation for the contract sum variation above and the double charge of the VAT amount of Kshs.190,156,845.

A review of the latest available project progress report of 15 January, 2018 puts the overall progress at 90% despite the revised contract period having lapsed on 8 June, 2017.

Consequently, the contractor is behind schedule in project delivery but Management has not acted to recover liquidated damages in line with the conditions of contract. There was no progress on this project during the period under review.

### **1.7. Wajir International Airport Rehabilitation**

As reported previously, the contract was awarded on 24 March, 2017 at a contract sum of Kshs.819,264,953 with the works commencement date on 24 April, 2017. A review of the project file and procurement records revealed the following unsatisfactory matters: -

#### **1.7.1. Inadequate Budgetary Allocation**

The above procurement works were based on a budgetary allocation of Kshs.250 million from the airstrip funds investment income with the balance being provisioned under the 2016/17 supplementary budget. However, on 21 December, 2016, the Principal Secretary for the State Department of Transport wrote to the Managing Director advising on stoppage of the project due to budget rationalization by The National Treasury. Subsequently the procurement process was terminated and this communication was sent to all the bidders on 27 January, 2017. However, one bidder challenged the termination with the Public Procurement Administrative Review Board which directed the Authority to award. The Management obliged and awarded the tender to the winning bidder on 24 March, 2017 albeit the inadequate funding.

#### **1.7.2. Evaluation and Award**

A review of the technical evaluation report dated 17 December, 2016 indicates that only one bid passed through the mandatory stage after meeting the requirements and a bid price of Kshs.819,264,953. Although this compares with the reported engineer's estimate of Kshs.830,000,000, there was no documentary evidence in support of the engineer's estimate.

### **1.8. Supply and Assembling of Gym Equipment**

The above contract was awarded on 3 October, 2017 at a contract sum of Kshs.10,702,721 with a term of six (6) weeks ending on 14 November, 2017. Although the equipment was supplied on 2 February, 2018 much later than the stipulated timeline, it continues to remain idle and uninstalled as at 31 January, 2019. The room in which they were to be installed was yet to be constructed.

In the circumstances, it has not been possible to confirm whether the Authority obtained value for money in incurring the expenditure of Kshs.10,702,721.

### **1.9. Suneka Airstrip Proposed Construction of a Passenger Mini Lounge, Fencing and Minor Runway Repairs**

As reported previously, the above contract was awarded on 14 January, 2015 at a contract sum of Kshs.52,846,114 and for a contract duration of 12 months. The initial

contract period was later extended by 10 months to 16 October, 2016. As at 30 June, 2019, Kshs.32,001,057 had been paid. However, the project progress could not be established as the progress reports were not made available for audit review.

Consequently, the project status could not be confirmed.

#### **1.10. Proposed Fencing Works at Wilson Airport**

The above contract was awarded in July 2015 at a contract sum of Kshs.86,923,727 and a contract duration of ten (10) months ending 10 June, 2016 and revised to 30 August, 2017. The latest project progress report dated May 2018 made available for audit review indicates works at 95% and chain link on galvanized wire at 90% completion status. However, the beacon re-establishment and survey were still pending. Informal settlers had also encroached on the land, denying the contractor access to some sections of the fence. The Project is behind schedule and may lead to cost escalations.

#### **1.11. Runway Capacity and Its Upgrading and Rehabilitation of Aircraft Pavement at Jomo Kenyatta International Airport**

The above contract was awarded on 30 October, 2014 at a contract sum of Kshs.6,249,683,529 for project duration of 30 months ending 30 April, 2017. The Contractor was paid an advance payment of Kshs.624,968,352 on 22 December, 2014 in line with the signed contract. However, only Kshs.79,449,614 had been recovered as at 30 June, 2019 despite the continued progress payments. Further, there was no evidence that the advance payment guarantee that expired on 19 February, 2017 had been renewed as Project Progress reports as of 30 June, 2019 were not availed for audit review.

#### **1.12. Outsourced Medical Services**

An insurance firm was awarded a tender for underwriting of the staff medical scheme (inpatient and outpatient) at a contract sum of Kshs.942,054,855 for three years 2017-2019 renewable annually based on performance. The Service Provider proposed price variation in year two from Kshs.352,082,091 to Kshs.414,356,394 or 18% citing scheme performance in year one. The Managing Director constituted a negotiation team and the team settled on a 10% variation of Kshs.94,205,435 payable in two equal instalments for year two and three. However, the recommendation for approval from the Evaluation Committee, minutes of the negotiation team, signed professional opinion by the Head of Procurement, and letter issued to the Service Provider for the 10% increase were not availed for audit verification.

In the circumstances, it was not possible to confirm whether the price variation was done in line with the provisions of the law and the signed contract. In addition, the payment of Kshs.94,205,435 over and above the contract sum of Kshs.942,054,855 could not be confirmed as a proper charge to the Authority's funds.

## 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, I confirm that, nothing 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**

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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

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 those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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 Authority'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 liquidate the Authority 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 Authority 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 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 Authority'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 Authority 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 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 Authority 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.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**25 November, 2020**