REPORT OF THE AUDITOR-GENERAL ON KENYA FERRY SERVICES LIMITED FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Ferry Services Limited set out on pages 29 to 64, which comprise the statement of financial position as at 30 June 2018, and the statement of comprehensive income, statement of changes in equity, 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 Ferry Services Limited as at 30 June 2018 , and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with Kenya Ferry Services Limited Act, 2006.

Basis for Qualified Opinion

1.0 Property, Plant and Equipment

1.1 Fully Depreciated Assets

As reported previously, the statement of financial position as at 30 June 2018 reflect property, plant and equipment amounting to Kshs.3,289,888,000 which includes fully depreciated assets with a total cost of Kshs.473,885,000 as per note 15 to the financial statements. Although some of the assets are in use, the economic value of these assets has not been accounted for in these financial statements as they are carried at zero value contrary to International Accounting Standard No.16 Section 31 which states that the revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the balance sheet date.

As a result, it has not been possible to ascertain that property, plant and equipment balance of Kshs.3,289,888,000 as at 30 June 2018 is not fairly stated.

1.2 Idle Assets

As previously reported, the management procured and installed weigh bridges on both sides of the Likoni channel in the year 2015/2016 at a cost of Kshs.26,779,893 as indicated in the assets register. Although the weigh bridges were integrated with the revenue system, they are practically idle assets since Kenya Ferry Services Limited does not use them to charge for use of its ferries by motor vehicles. Further, management indicated that the weigh bridges were a control measure to enhance safety by estimating the weight of motor vehicles boarding ferries at the channel. However, there was no evidence showing that the weights of motor vehicles measured through the weigh bridges are used to control the number of motor vehicles that board the ferries. The status remains the same during the year under review.

Consequently, it has not been possible to confirm the propriety and value for money from expenditure totaling Kshs.26,779,893 incurred on the installation of weigh-bridges at Likoni Ferry and included in the property, plant and equipment balance of Kshs.3,289,888,000 as at 30 June 2018.

1.3 Construction and Delivery of Two New Ferries

As previously reported, Kenya Ferry services Limited awarded contract for supply and delivery of two new passenger ferries at a cost of Kshs.1,863,000,000 (US $18,630,000). The Company made a down payment of Kshs.598, 023,000 (US $5,920,726.7) to the local appointed Agent in August 2015, but failed to withhold 6% of VAT totaling Kshs.35,881,380 and withholding tax at 20% for non-resident company totaling Kshs.119,604,600 despite professional advice from Kenya Revenue Authority to subject payments to both taxes.

In addition, according to the contract signed on 27 June 2015, the new ferries were to be delivered after seventeen (17) months, but as at the time of this audit in November 2018, the second ferry had not been delivered. Also, an email to the supplier dated 9 January 2019 requesting for direct confirmation of the amount received from Kenya Ferry Services Limited for the second ferry, the outstanding balance and the expected date of delivery of the ferry has not been responded to.

In light of the foregoing, it has not been possible to confirm the validity, accuracy and completeness of the building and supply of two new ferries at cost of and propriety of expenditure totaling Kshs.1,519,379,614 paid to the contractor as at 30 June 2018.

2.0 Trade and Other Receivables

2.1 Long Outstanding Debts

As previously reported, the financial statements reflect trade and another receivables balance of Kshs.452,015,000 which includes two debtors one of Kshs.12,300,496 and the other Kshs.50,652,633 which have been outstanding since the year 2008/2009. Although the management has indicated that the debts are subject to court cases, no documentary evidence has been provided to confirm the management’s assertion. Further, the original debtors’ statements were not availed for audit confirmation.

In the circumstances, the accuracy and completeness of trade receivables balance of Kshs.97,490,000 as at 30 June 2018 could not be confirmed.

2.2 Staff Receivables

Note 22(a) to the financial statements for the year ended 30 June 2018 reflects staff receivables balance of Kshs.11,358,000. However, included in this balance is Kshs.14,578,000 whose support schedule figure totaled Kshs.119,989,961, resulting to absolute variance of Kshs.107,761,961 which has not been explained nor reconciled as detailed below:

Item	Financial Statement Amount (Kshs.)	Supporting Schedule Amount (Kshs.)	Variance (Kshs)
Advances	10,125,000	10,151,472	26,472
Imprests	3,278,000	109,838,489	106,560,489
Overdrawn salaries	1,175,000	0	1,175,000
Total	**14,578,000**	**119,989,961**	**107,761,961**

Further, audit verifications revealed that staff advances amounting to Kshs.4,178,131 was owing from former staff. The management has not clearly explained how the staff were cleared before settling the debts.

Consequently, it has not been possible to confirm the accuracy, completeness, validity and recoverability of trade and other receivables balance of Kshs.452,015,000 as at 30 June 2018.

3.0 Trade and Other Payables

As previously reported, included in trade and other payable balance of Kshs.228,905,000 as shown in note 29 to the financial statements are trade creditors amounting to Kshs.174,824,000 out of which Kshs.84,438,282 are long outstanding creditors, an indication that the company could be having difficulties in meeting its credit obligations when they fall due which may lead to legal cases being instituted against the company. Although the management indicates that all the liabilities will be settled, there is no documentary evidence of how the company plans to pay.

Further, the trade and other payable balance of Kshs.228,905,000 excludes an amount Kshs.162,497,579 (USD 1,577,646.4) in respect to taxes charged on purchase of one ferry vessel (MV Jambo) completed and delivered in July 2017. The management did not avail evidence of payment of the above tax to Kenya Revenue Authority as demanded through a letter reference H.O 1035 dated December 2016.

Under the circumstance, it has not been possible to confirm the validity and accuracy of trade and other payable balance of Kshs.228,905,000 as at 30 June 2018.

4.0 Income from Operations

The statement of comprehensive income for the year ended 30 June 2018 reflects Kshs.493,972,000 as income from operations as detailed in note 2 to the financial statements. This amount includes Kshs.478,035,000 being toll collections which is the amount charged to motorists to be ferried across the channel. A visit to the toll charging booths revealed that there were weigh bridges on the toll collection booths on both sides of Likoni channel. Although weigh bridges were integrated with the revenue system on both sides of the channel, they were not in use since Kenya Ferry Services Limited do not use weight to charge for use of ferry by the motor vehicles.

The loaded motor vehicles are charged at different rates from unloaded ones. However, the toll collectors rely on information provided by drivers regarding the state of load in the motor vehicles. It was not evident that all cargo carrying motor vehicles are inspected to confirm the state of load carriage before payment is made.

In the circumstances, the accuracy and completeness of income from operations amounting to Kshs.493,972,000 for the year ended 30 June 2018 could not be confirmed.

5.0 Bank and Cash Balances

The statement of financial position as at 30 June 2018 reflects bank and cash balances amounting to Kshs.325,953,000 out of which Kshs.5,604,000 was held at National bank collection account as detailed in note 23 to the financial statements. However, the bank reconciliation availed for audit supported an amount of Kshs.4,879,258 resulting to unreconciled variance of Kshs.724,742 as at 30 June 2018.

In the circumstances, the accuracy and completeness of bank and cash balance of Kshs.325,953,000 as at 30 June 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Ferry Services Limited in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, 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 Matter

1.0 Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year ended 30 June 2018 reflects budget of Kshs.1,294,662,000 and actual expenditure of

Kshs.1,237,660,000 resulting to net under absorption of Kshs.57,002,000 as summarized below:

	Item	Budget (Kshs'000')	Actual (Kshs'000')	Under-Absorption (Kshs'000')	Over-Absorption (Kshs'000')	%
1.	Staff costs	536,472	519,259	17,213		3.2
2.	Administration costs	107,458	108,372	-	914	0.8
3.	Operation costs	340,936	243,180	97,756	-	28.6
4.	Board costs	16,700	16,572	128	-	0.76
5.	Repairs & Maintenance	140,673	135,946	4,727	-	3.3
6.	Depreciation	152,090	213,998	-	61,908	40.7
7.	Amortization	333	333	-	-	0
	Total	**1,294,662**	**1,237,660**	**119,824**	**62,822**	**44.0**

The Kenya Ferry Services Limited under spent to a tune of Kshs.119,824,000 or 9% of the total budget allocation. The funds could have been allocated to other deserving areas that would improve the ferry services to the public. This may also be an indication of improper planning and the management may need to re-think on its budget making process in view of focusing on more priority areas. Further, Kenya Ferry Services Limited overspent the budget by Kshs.62,822,000 However, there was no evidence of authority to overspend or reallocate funds in line with Section 48 (5) of the Public Finance Management (National Government) Regulations, 2015 which states that 'reallocations under this regulation shall be approved by the respective Accounting Officer of the entity'.

Consequently, Kenya Ferry Services Limited is in breach of the law.

2.0 Legal Fees

Note 7 to the financial statements for the year ended 30 June 2018 reflects legal dues/fees, arbitration and compensation amounting to Kshs.14,112,000 out of which Kshs.11,218,486 was paid to external legal firms for provision of legal services to the company in different cases. However, the management did not avail authority from the Attorney General approving the hiring and payment of legal fees to private law firms contrary to Attorney General circular AG/CONF/6/E/247 VOL II which states that legal fee payable to any private advocate or law firm under such an arrangement must be approved and authorized by the Attorney General. It further states that any procurement of legal services secured without the authority of the Attorney General constitutes a breach of law and may condemn the concerned officer to a liability of surcharge as provided by the Article 226(5) of the Constitution.

The management is therefore in breach of the law.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Report on Lawfulness and Effectiveness in Use of Public Resources/Basis for Qualified Opinion sections 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

1.0 Purchase of Diesel Generator

Note 15 to the financial statements for the year ended 30 June 2018 reflects additions of generators, plant tools, crane, CCTV and equipment amounting to Kshs.2,660,000 out of which Kshs.2,107,800 was in respect to purchase of diesel generator. Audit revealed that Kenya Ferry Services Limited issued Local Purchase Order No. 11834 on 27 October 2016 for supply of diesel power generator, four stroke air cooled. The Local Purchase Order stated that if the generator was not supplied before 22 December 2016, then the contract was to be treated as cancelled. However, the generator was delivered on 30 August 2017, eight (8) months after stated delivery period had elapsed and it was accepted by the management.

It was not clear why the Local Purchase Order was not cancelled as per the terms of engagement and other suppliers given opportunity to bid.

In the circumstances, the management was in breach of the terms and policy of the Local Purchase Order.

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 procedures performed, except for the matters described in the Basis for Qualified Opinion section of my report, 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.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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 (IFRS) 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 governance.

In preparing the financial statements, management is responsible for assessing the ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the or to cease operations, or have no realistic alternative but to do so.

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

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.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity 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

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 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 Kenya Ferry Services Limited's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause Kenya Ferry Services 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 Kenya Ferry Services Limited to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

20 March 2019