

REPORT OF THE AUDITOR-GENERAL ON KENYA MARITIME AUTHORITY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Kenya Maritime Authority as set out on pages 1 to 37 which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Kenya Maritime Authority as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and do not comply with the Kenya Maritime Act, Cap 370 of the Laws of Kenya.

Basis for Adverse Opinion

1.0 Presentation of the Financial Statements

The financial statements for the year ended 30 June 2018 availed for audit omits on the table of contents report of the independent auditors on Kenya Maritime Authority which is on page xxxvii.

Consequently, the presentation of the financial statements does not comply with the International Public Sector Accounting Standard No. 1 as prescribed by Public Sector Accounting Standards Board.

2.0 Revenue from Non-Exchange Transactions

The statement of financial performance for the year ended 30 June 2018 reflects revenue from non-exchange transactions of Kshs.1,511,762,442 in respect of merchant shipping levy as disclosed in Note 3 to the financial statements. However, audit review of merchant shipping levy from cargo manifests sent by Kenya Revenue Authority totaled Kshs.1,516,592,132, resulting to a variance of Kshs.4,829,690 which has not been explained or reconciled. Further, although the records indicate that the Authority outsourced the collection of merchant shipping levy to Kenya Revenue Authority, no system has been put in place for determining the amount of levy collectible by Kenya Revenue Authority. In addition, Kenya Revenue Authority sends copies of cargo manifests to the Authority but the management relies on revenue reports remitted by

Kenya Revenue Authority. No evidence was availed to confirm that the reports are verified against the manifests.

Consequently, the accuracy, validity and completeness of merchant shipping levy of Kshs.1,511,762,442 for the year ended 30 June 2018 could not be confirmed.

3.0 General Expenditure

The statement of financial performance for the period ended 30 June 2018 reflects general office expenditure of Kshs.375,973,734 as detailed in note 13 to the financial statements. The following observations were made;

3.1 Domestic Air Travel and Local Duty Travel Allowances

Included in the general office expenditure is domestic and overseas air travel of Kshs.22,474,260, and duty travel allowances of Kshs.69,794,866. Records availed for audit indicated that Kshs.1,841,903 domestic air travel, and Kshs.6,161,507 local duty travel allowances all totaling to Kshs.8,003,410, relates to the Ministry of Housing, Infrastructure and Urban Development officers. However, the management did not provide explanations as to why Kenya Maritime Authority incurred the expenditure on behalf of the Ministry.

Consequently, the propriety and validity of domestic and overseas air travel and duty travel allowances of Kshs.8,003,410 for the year ended 30 June 2018 could not be confirmed.

3.2 Legal Fees

The statement of financial performance for the period ended 30 June 2018 reflects general office expenditure of Kshs.375,973,734. Included in this expenditure is Kshs.4,895,220 in respect of legal fees, out of which Kshs.4,344,000 was paid to a legal firm representing the Authority. Records availed for audit review indicated that the management made the payment without preparation of a payment voucher, quotations, tender evaluation and award minutes and evidence of services rendered. Further, no records were availed to confirm authorization of remittance of the funds to the law firm.

In addition, the management did not provide evidence to confirm that the Authority sought approval and concurrence of the Attorney General before procuring private legal services as required by the Attorney-General Circular Ref. AG/CONF/6/E/247 VOL.II of 16 April 2014.

Consequently, the propriety, validity and legality of legal fees of Kshs.4,344,000 for the year ended could not be confirmed.

3.3 HIV and AIDS Related Awareness

Note 13 to the financial statements for the year ended 30 June 2018 reflects Kshs.7,535,484 in respect of HIV and AIDS related awareness. Included in this amount is Kshs.1,768,590, being expenditure incurred by employees for conducting community HIV and AIDS support activities. However, the management did not provided details of the specific support activities conducted and the target beneficiaries. A further sum of

Kshs.2,401,200 was incurred on conferences and accommodation of staff family members and Kshs.515,200 on Authority's staff undertaking awareness activities in various shows across the country all totaling to Kshs.2,916,400. Again, this expenditure was not supported by attendance lists for the conferences and evidence of travel for the shows conducted across the country.

In addition, the Authority spent Kshs.777,220 on sensitization programs in Kisumu, Watamu and Lamu, out of which Kshs.529,240 was paid to individuals who were not its employees. However, the basis of rates used was not provided for audit confirmation.

Consequently, the accuracy, propriety and validity of HIV and AIDS related awareness expenditure of Kshs.5,214,230 for the year ended 30 June 2018 could not be confirmed.

3.4 Professional and Consultancy Fees

Note 13 to the financial statements for the year ended 30 June 2018 reflects Kshs.5,506,635 in respect of professional and consultancy fees. Included in this amount is Kshs.4,628,800, being payment for provision of consultancy services to review and develop a strategic plan and an organizational structure for Kenya Maritime Authority. The contract was awarded to a consultancy firm at a contract sum of Kshs.5,452,000, out of which Kshs.4,628,800 or 85% had been paid as at 30 June 2018. Records availed for review indicated that the services were to be offered within a period of two (2) months from 8 November 2017 when the contract was signed. However, as at the time of audit in the month of February 2019, about twelve (12) months after the expected completion date, the service provider had not finished the work.

Consequently, the propriety, validity and value for money for Kshs.4,628,800 on professional and consultancy fees for the year ended 30 June 2018 could not be confirmed.

4.0 Irregular Payment of Lunch Allowances to Board of Directors

The statement of financial performance for the year ended 30 June 2018 reflects Kshs.39,592,348 in respect of Board of Directors costs as disclosed in Note 10. Included in this balance is Kshs.32,011,026, being allowances and other expenses, out of which Kshs.640,000 is in respect of lunch allowances paid in addition to accommodation and subsistence allowances, contrary to Public Service Commission Human Resources Policies, 2016, Clause C.17(1) which states that, 'Meal allowance will only be paid to officers travelling on duty within the country but who are not required to spend a night away from the permanent duty station. Meal allowance will not be paid alongside accommodation allowance'.

Consequently, the propriety of Kshs.640,000 on meal allowances for the year ended 30 June 2018 could not be confirmed.

5.0 Repairs and Maintenance

5.1 Motor Vehicles and Boats Repairs

Note 12 to the financial statements for the year ended 30 June 2018 reflects Kshs.1,161,081 in respect of motor vehicle and boats maintenance. However,

mechanical inspection reports, purchase requisitions by the user departments, motor vehicle service log books and post repair inspection reports were not availed for audit review.

Under the circumstances, the propriety and validity of Kshs.1,161,081 on motor vehicles and boats repairs for the year ended 30 June 2018 could not be confirmed.

5.2 Maintenance of Buildings

Note 12 to the financial statements for the year ended 30 June 2018 reflects Kshs.2,119,554 in respect of maintenance of buildings. Audit review of maintenance of buildings documents showed that, during the period under review, the Authority requested for quotations from three firms for painting of Lamu office. The tender was awarded to one of the bidders at a cost of Kshs.571,444. However, it was established that the purchase requisition was dated 3 July 2017 while the support quotations were dated 13 March 2017, an indication that the quotations were sent five (5) months earlier than the purchase requisitions, contrary to the Kenya Maritime Authority procurement procedure manual clause 7.3 which indicates that quotations should be raised after the purchase requisition. Further, The Authority did not avail for audit review minutes of the tender evaluation committee.

Under the circumstances, the propriety of Kshs.571,444 on painting of Lamu office for the year ended 30 June 2018 could not be confirmed.

6.0 Cash and Cash Equivalents

The statement of financial position as at 30 June 2018 reflects cash and cash equivalents balance of Kshs.989,042,065. Included in this balance is Kshs.747,033,514 in respect of cash held at Kenya Commercial Bank Limited. The support bank reconciliation statement as at the same date indicated payments in bank statement not yet recorded in cashbook of Kshs.4,344,000 described as legal fees. Further, records availed for audit review indicated that, the management authorized the transfer of Kshs.4,344,000 to a third party without verification of invoice by the procurement officer, provision of supporting documents, authority for preparation of payment voucher by the accountant, preparation and recording of the payment voucher, recommendation of payment by head of department, approval of payment by head of commercial shipping and authorization by the Director General for payment as required by Kenya Maritime Authority Financial Procedures Manual paragraph 9.7.1. This indicates a control weakness where funds were transferred from the Authority's bank account without any documentation, approval or authorization.

Consequently, the accuracy, validity and completeness of cash and cash equivalents balance of Kshs.989,042,065 as at 30 June 2018 and the effectiveness of controls on transfers from the Authority's bank accounts to third parties could not be confirmed.

7.0 Trade and Other Receivables from Exchange Transactions

The statement of financial position as at 30 June 2018 as disclosed reflects trade receivables from exchange transactions balance of Kshs.207,865,016 as disclosed in Note 17. The following observations were made;

7.1 Trade Receivables

Included in trade receivables from exchange transactions is Kshs.12,927,987 in respect of trade receivables, out of which Kshs.6,604,812 had been outstanding since 1 July 2015. The management did not provide a satisfactory explanation as to why these debts had not been collected nor was evidence availed to confirm that the same has been referred to an agency for collection as provided in the credit policy. The policy provides that any outstanding amount of over 45 days that has not been received should be recommended to an agency to ensure a follow up and subsequent settlement.

Consequently, the accuracy, recoverability and validity of trade debtors balance of Kshs.6,604,812 as at 30 June 2018 could not be confirmed.

7.2 Other Non-Trade Receivables

Included in trade receivables from exchange transactions is Kshs.143,935,471 in respect of other non-trade receivables, out of which Kshs.2,275,749 was a claim from a supplier for non-performance of contractual obligations, being 20% of the contract sum which was payable after first project meeting, contract sign off and signing of the project charter. The payment was made in relation to a contract dated 15 December 2016 for Kshs.11,378,743 with a contract period of twelve (12) weeks for supply, review, upgrade, installation and support of Enterprise Resource Planning (ERP) system and integration with electronic data management system and other systems. Available records showed that the project stalled before reaching the second milestone and the management indicated that efforts to recover the claim was ongoing. As at the time of audit in the month of February 2019, twenty-five (25) months after the expiry of the contract period, the service provider had not completed the work.

Consequently, the recoverability of other trade debtors of Kshs.2,275,749 as at 30 June 2018 could not be confirmed.

7.3 Provision for Doubtful Debts

Note 17 to the financial statements for the year ended 30 June 2018 reflects provision for doubtful debts amounting to Kshs.4,061,057 and which is the same provision as at 30 June 2017. However, the management did not provide details of how the provision was arrived at, contrary to the Authority's credit policy that requires provision for bad debts to be made where chances of successful collection are minimal. The policy further states that any debts of over 100 days qualify to be provided for and the credit committee shall propose specific provisions for authorization and approval by the Director-General.

Consequently, the accuracy and validity of provision for doubtful debts of Kshs.4,061,057 as at 30 June 2018 could not be confirmed.

8.0 Property, Plant & Equipment

8.1 Purchase of Land for Search and Rescue Centers

As previously reported, included in property, plant and equipment balance of Kshs.1,078,016,509 is a figure of Kshs.39,008,847 in respect of land and building, out of which Kshs.35,180,040 relates to purchase of three pieces of land for search and rescue centers during the financial year 2016/2017 as shown below:

Location	Acres	Amount Kshs
Kwale	3.13	19,500,000
Kisumu	0.8	14,280,040
Deposit for Kwale land		1,400,000
Total		35,180,040

Audit verification of the procurement documents revealed the following anomalies:

1. According to the head of procurement's professional opinion for Kwale land prepared on 10 June 2017, it was indicated that the head of procurement compared the prices quoted against the valuation report for each piece of land although the valuation reports were dated 21 July 2016. It implies the valuation report which was received after the head of procurement had issued his professional opinion did not provide guidance in determining the value of the land. This was in violation of Section 84(1) of the Public Procurement and Asset Disposal Act, 2015 which provides that the head of procurement shall, alongside the report to the evaluation committee, review the tender evaluation report and provide a signed professional opinion to the accounting officer on the procurement or asset disposal proceedings. Therefore, the head of procurement's professional opinion report was misleading.
2. According to a correspondence by the Ministry of Land and Physical Planning attached to draft valuation report, it referred to a letter reference KMA /PRO/41 dated 13 October 2015 by Kenya Maritime Authority requesting for valuation of the same pieces of land. It therefore implies that the selected plots had already been identified before the advertisement for expression of interest on 25 February 2016. In addition, the letter was not availed for audit verification despite several requests. It is an indication of predetermined supplier.
3. According to the advertisement for Kisumu land, the land was expected to measure 1 acre and within the vicinity of the port. However, the tender was awarded to a bidder whose land measured 0.8 acres and was 7.1 kilometers from Kisumu Port. This is contrary to the Section 80(2) of the Public Procurement and Assets Disposal Act, 2015 which provides that the evaluation and comparison shall be done using the procedures and criteria set out in the tender documents.

In the circumstances, the propriety and legality of Kshs.35,180,040 in respect of property, plant and equipment and value for money for the year ended 30 June 2018 could not be confirmed.

8.2 Leasehold Land

The statement of financial position as at 30 June 2018 reflects property, plant and equipment balance of Kshs.1,078,016,509 as disclosed in Note 23. Included in this balance is Kshs.203,097,950 in respect of leasehold land, being plot reference Mombasa Mbaraki MSA/ XLVIII/128. A review of the certificate of lease indicated that the property was held on a ninety-nine (99) year lease from Kenya Railways starting 1 January 1971 with an annual rent of Kshs.4,800. Further, the certificate indicated that the leasehold interest was subject to the agreement and other matters contained in the registered lease. However, the registered lease was not availed for audit review.

Consequently, the rights and obligations of Kenya Maritime Authority on the leasehold land valued at Kshs.203,097,950 as at 30 June 2018 could not be confirmed.

9.0 Capital Work in Progress

Note 23 to the financial statements for the year ended 30 June 2018 reflects capital work in progress balance of Kshs.706,789,275, being cumulative cost of works on Kenya Maritime Authority headquarters project being constructed on Mombasa Mbaraki MSA/ XLVIII/128 at a total cost of Kshs.1,728,176,418. The works consists of main building works, electrical, plumbing and drainage, air conditioning and elevator installation works. The following observations were made:

9.1 Advance Payment

Note 17 to the financial statements for the year ended 30 June 2018 reflects other non-trade receivables of Kshs.143,935,471, out of which Kshs.139,478,752 is in respect of un-recovered advance payment for the construction of Kenya Maritime Authority Headquarters contract awarded at a corrected tender sum of Kshs.1,825,239,939, The contractor's bid was Kshs.1,728,176,418. Records availed for audit review indicated that the Authority had paid Kshs.182,523,994, being 10% advance payment as provided in the contract based on a contract sum of Kshs.1,825,239,939. The advance payment was therefore based on the corrected tender sum awarded resulting in over payment of advance by Kshs.9,706,352. However, it is not clear why the management did not recover the overpayment on the first application for payment by the contractor.

Consequently, the validity and legality of the advance payment of Kshs.9,706,352 not yet recovered and the accuracy and completeness of other non-trade receivables of Kshs.143,935,471 as at 30 June 2018 could not be confirmed.

9.2 Interim Certificates

Included in the capital work in progress balance of Kshs.706,789,275 as at 30 June 2018 are payments for interim certificates presented and approved during the year under review amounting to Kshs.539,431,019 as detailed below:

Date	PV number	Details	Amount (Kshs)
9/28/2017	LEAHJV-00330	Work done Payment Block XLVIII/12 Cert No.2	161,413,223
5/21/2018	P_INV15274	Proposed development of KMA HQ office cert 03.	188,551,828
6/28/2018	P_INV15706	Proposed development of KMA HQ office cert 04	189,465,968
Total			539,431,019

The following observations were made;

9.3 Payment of General Preliminaries

Note 23 to the financial statements for the year ended 30 June 2018 reflects capital work in progress balance of Kshs.706,789,275, Included in this amount is Kshs.539,431,019 being payments for interims certificate numbers 2, 3 and 4. Audit review of the interim certificates indicated that, the Authority made payment for particular preliminaries (PP10) included item C of the bill of quantities, at a cost of Kshs.3,500,000 which was paid in full plus 15% or Kshs.525,000 profit for ground breaking ceremony. Preliminaries being provisional amounts are reimbursed on production of evidence of actual costs incurred. However, the Authority paid the contractor the full amount without evidence of the actual cost incurred. Further, general preliminaries(GP/10) of the bills of quantities provided for performance security of Kshs.6,075,000 which was also paid. However, the payment was meant to be provided by the contractor as collateral for the employer in case of default on performance by the contractor.

Consequently, the propriety and validity of ground breaking ceremony cost of Kshs.3,500,000 for the year ended 30 June 2018 could not be confirmed. Further, Kshs.6,075,000 paid to the contractor for provision of performance security is irregular.

9.4 Materials on Site

Note 23 to the financial statements for the year ended 30 June 2018 reflects capital work in progress balance of Kshs.706,789,275. Included in this amount is Kshs.539,431,019, being payments for interims certificate numbers 2, 3 and 4. Audit review of these interim certificates revealed that the Authority paid the contractor Kshs.346,409,290 in respect of materials on site during the period under review. During site inspection on 7 February 2019, it was established that the construction materials were not held at the construction site nor in custody or under security of the employer, in this case Kenya Maritime Authority. However, the Authority paid for these materials despite being held in unidentified/unknown site. Further, approved reports on the quantities of materials paid for were not availed for audit review.

Under the circumstances, the propriety of Kshs.346,409,290 on materials on site for the year ended 30 June 2019 could not be confirmed.

9.5 Payment of Rent

Included in the capital work in progress balance of Kshs.706,789,275 as at 30 June 2018 are payments for rent amounting to Kshs.2,070,000, being cost incurred by Kenya Maritime Authority to temporarily resettle tenants of reef apartment building whose stability was compromised during excavation for the foundation of the Headquarters building. However, the capitalization of the rent expense is contrary to International Public Sector Accounting Standard No. 17 Paragraph 30 which states that, 'The cost of an item of property, plant, and equipment comprises: (b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management'.

Further, Paragraph 30.3 of the conditions of contract under liability and insurance provides that, 'the contractor shall provide in joint names insurance cover that should have covered loss or damage to property in connection with the contract'. Therefore, the cost of rent should have been catered for by the cover. Also, Appendix to conditions of contract clearly provided Kshs.5,000,000 as the minimum for insurance of other property.

Consequently, the accuracy and validity of Kshs.2,070,000 in respect of work in progress as at 30 June 2018 could not be confirmed.

9.6 Raft Piling

Note 23 to the financial statements for the year ended 30 June 2018 reflects capital work in progress balance of Kshs.706,789,275. Included in this amount is Kshs.539,431,019, being payments for interim certificate numbers 2, 3 and 4. Records availed for audit review indicated that during site excavation, the contractor encountered a section of the plinth which did not conform to hard rock necessitating redesign of the basement raft to include tubular piling filled with reinforced concrete. The records further show that, the employer negotiated variation to works valued at Kshs.128,732,528 or 7.45% of the contract sum of Kshs.1,728,176,418 for raft piling. Further, the bill of quantities for the works provided for two hundred and ninety-six (296) piles to be driven down for a minimum of seven (7) meters while the actual depth was to be determined on site after completion. Interim certificate Number four (4) indicated that the Authority paid Kshs.93,650,107 for the piling works. However, measurement details of the actual piling and information regarding the number and depth of each pile were not availed for audit confirmation. Further, measurements on site were not provided to confirm whether amount paid was in line with the provision of the Bill of Quantity. In addition, payment for the certificate was 84% of the items provided in the Bill of Quantity which was not confirmed by actual measurement of piling done.

Consequently, the propriety and value for money for raft piling of Kshs.93,650,107 as at 30 June 2018 could not be confirmed.

9.7 Construction of Headquarters Subcontracts

Note 23 to the financial statements for the year ended 30 June 2018 reflects capital work in progress of Kshs.706,789,275. The capital work in progress relates to a contract for

construction of Kenya Maritime Authority Headquarters at a contract sum of Kshs.1,728,176,418. Included in the contract sum are prime costs and provisional sums amounting to Kshs.390,452,000 or 22.6%, contrary to the guidelines provided by Public Procurement Oversight Authority, 2007 which provide under Section VII Bills of Quantities Paragraph 3.0(d)(ii) that 'Provisional Sums to cover specialized works normally carried out by Nominated Sub Contractors should be avoided and instead Bills of Quantities of the specialized Works should be included as a section of the main Bill of Quantities to be priced by the Main Contractor. The Main Contractor should be required to indicate the name (s) of the specialized firms he proposes to engage to carry out the specialized Works as his approved domestic subcontractors. Only Provisional Sums to cover specialized Works by statutory authorities should be included in the Bills of Quantities'.

Further, review of sub contracts procurement indicated a provisional sum of Kshs.32,500,000 for installation of lift which was awarded to one of the bidding firms at a contract price of Kshs.29,183,369. However, due diligence report indicates that the company is owned by non-Kenyan citizens and no preference was provided in the bid document, contrary to Section 3(i) of the Public Procurement and Asset Disposal Act, 2015 which requires promotion of local industries, Section 155(3) b which requires preference to be given to firms where Kenyans are shareholders, and Section 157(8) which requires exclusive preference to be given to citizens where funding is 100% funded by National Government or a Kenyan Body and is below the prescribed threshold. Consequently, the Authority contravened the Law.

10.0 Mortgage Guarantees

As reported in the previous year, the statement of financial position as at 30 June 2018 reflects a balance of Kshs.212,970,203 in respect of mortgage guarantees. Information available indicates that the Authority has a staff car loan scheme with a balance of Kshs.30,500,000 and a housing mortgage scheme with a balance of Kshs.182,470,203 as at 30 June 2018, operated by Family Bank Ltd and Kenya Commercial Bank Ltd respectively. However, financial statements for the two schemes were not submitted to the Auditor-General for audit, contrary to Section 81(1 & 4) of the Public Finance Management Act, 2012 which requires that at the end of each financial year, the accounting officer for a national government entity shall prepare financial statements in respect of the entity and submit the same to the Auditor-General. In addition, Paragraph 5 of Part 4 of the Salaries and Remuneration Commission's Circular SRC/ADM/CIR/1/13 Vol.III (128) dated 17 December 2014 on the management of car loan and mortgage schemes for state officer requires each scheme to be subjected to annual audit of the government.

As a result, the accuracy, completeness and legality of mortgage guarantees balance of Kshs.212,970,2013 as at 30 June 2017 could not be confirmed

11.0 Trade and Other Payables from Exchange Transactions

The statement of financial position as at 30 June 2018 reflects trade and other payables from exchange transactions balance of Kshs.321,526,769 as disclosed in Note 24 to the financial statements. Included in this balance is Kshs.231,497,289 in respect to trade payables, out of which is Kshs.4,749,069 is owed to a supplier of which the creditors'

balance confirmation letter indicated outstanding balance of Kshs.5,650,749, resulting to unexplained nor reconciled variance of Kshs.901,680.

Further, creditors balance confirmation letters sent to five (5) creditors with outstanding balances amounting to Kshs.12,808,769 were not responded to.

Consequently, the accuracy, completeness and validity of trade payables balance of Kshs.17,557,838 as at 30 June 2018 could not be confirmed.

12.0 Recruitment of Interns

Note 9 to the financial statements for the year ended 30 June 2018 reflects internship costs of Kshs.1,247,615 in respect of eighteen (18) interns engaged on the internship program during the year under review. However, the management did not avail information and records indicating how the interns were recruited, vetted and enrolled for the program. Further, applications, appointment letters and copies of academic certificates for seven (7) interns were not availed for audit review.

Consequently, the propriety of internship expenditure of Kshs.1,247,615 for the year ended 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 Maritime Authority 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 adverse 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 Adverse 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

1.1 Revenue Budget

The statement of comparison of budget and actual amounts for the year ended 30 June 2018 reflects an approved revenue budget of Kshs.1,626,000,000. However, the Authority's actual revenue for the year amounted to Kshs.1,593,089,262, resulting to net under-collection of Kshs.32,910,738 or 2% as detailed below;

Revenue	Final Budget Kshs	Actual on Comparable Basis Kshs	Under Collection Variance Kshs	Over Collection Kshs	Percent Variance %
MS Levy	1,550,000,000	1,511,762,442	38,237,558	-	2.5
Rendering Service	17,150,000	12,303,460	4,846,540	-	28.3

Interest Income	50,000,000	58,283,664	-	8,283,664	16.6
Other Income	8,850,000	10,739,696	-	1,889,696	21.3
Total income	1,626,000,000	1,593,089,262	43,084,098	10,173,360	2.0

The material under-collection in rendering of service income of 28.3% was attributed to reduced inspection of vessels during the year and may affect achievement of the Authority's set objectives and planned activities. The over collection in interest income and other income of 16.6% and 21.3% respectively was as a result of investment of funds available for construction of the Authority's headquarter offices which had delayed in implementation and recognition of deferred incomes on capital grants from the National Government. However, the management should endeavor to align its budget to the expected revenue collections in order to avoid huge variances observed during the year under review.

1.2 Expenditure Budget

The statement of comparison of budget and actual amounts for the year ended 30 June 2018 reflects an approved total expenditure of Kshs.1,242,580,000 against actual expenditure of Kshs.912,144,323 resulting to net underutilization of Kshs.330,435,677 or 27% as detailed below;

Expenditure	Final Budget (Kshs)	Actual Expenditure (Kshs)	Under Utilization (Kshs)	Over Utilization (Kshs)	% Budget Under-Utilization
Employees Costs	454,540,000	439,962,404	14,577,596	-	3
Board of Directors Costs	68,480,000	39,592,348	28,887,652	-	42
Water and Electricity	8,500,000	5,097,289	3,402,711	-	40
Repairs and Maintenance	15,000,000	8,464,017	6,535,983	-	44
General Office Expenditure	648,560,000	375,973,734	272,586,266	-	42
Depreciation	47,500,000	40,789,863	6,710,137	-	14
Loss on Foreign Exchange Transactions	-	2,264,668	-	2,264,668	-100
Total	1,242,580,000	912,144,323	332,700,345	2,264,668	27

The huge net underutilization of Kshs.330,435,677 or 27% is a pointer to possible unrealistic budget and the management should review the budget making process with a view to coming up with realistic budgets for service delivery to citizens of Kenya. Underutilization may also affect delivery of goods and services.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion and Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Kenya Revenue Authority and Maritime Authority Revenue Collection Agency Agreement

The Kenya Maritime Authority (KMA) and the Kenya Revenue Authority (Kenya Revenue Authority) entered into a memorandum of understanding on 19 June 2013 where Kenya Revenue Authority was to offer agency services for monitoring, assessment, certification and collection of MSS levy. Kenya Revenue Authority was to collect the MSS Levy on behalf of Kenya Maritime Authority and remit the same to Kenya Maritime Authority bank accounts by the 10th of every succeeding month after the month of collection net of the agreed agency commission of 2% on the collections.

Kenya Revenue Authority further was to make available the documentation in regard to the amount collected to KMA. The MOU was for a period of three years ending 15 November 2015. The Memorandum of Understanding clause 5.5 required renewal by Kenya Maritime Authority giving three months' notice to Kenya Revenue Authority with intention of renewal. However, as at the time of audit February 2019 (four years and 2 months after the expiry of the MOU) the MOU had not been extended nor renewed. Kenya Maritime Authority has not given explanation as to why the same has not been renewed despite the fact that Kenya Revenue Authority continues to collect the levies on behalf of Kenya Maritime Authority. A review of the agreement indicated that there were no provisions of how the MSS levy collected by Kenya Revenue Authority would be confirmed and verified by Kenya Maritime Authority.

Consequently, Kenya Maritime Authority allowed Kenya Revenue Authority to collect MSS Levy without a valid agreement, and contravened the law by failing to establish a system of verifying the MSS Levy collected by its agent.

2.0 Employee Costs

The statement of financial performance for the period ended 30 June 2018 reflects Kshs. 439,962,404 in respect of employees costs as detailed in note 9 to the financial statements. The following observations were made;

2.1 Payment for Training Courses Not in the Training Plan

Included in employees costs is staff training expenditure of Kshs.128,273,058, out of which Kshs.3,761,605 is in respect of staff allowances paid for trainings which were not in the approved training plan for the year under review, contrary to Paragraph 3.0 of the guidelines to managing training in public service 2017 which states that "As per the Human Resource Development policy and other Human Resource Management & Development guidelines in the public service, planning for training shall be guided by the outcome of Training Needs Assessment and shall be designed in line with identified performance gaps linking training to closing of such gaps. Training will be planned to

upgrade core competencies, knowledge, skills and attitudes of public servants, with the aim of enhancing service delivery.”

Consequently, the management is in breach of the Human Resource Development policy.

2.2 Non-Recovery of Training Levy

Note 9 to the financial statements for the year ended 30 June 2018 reflects Kshs.128,273,058 in respect of staff training. Records availed for audit review indicated that the Authority sponsored employees to local and overseas trainings during the year. However, the management did not recover 20% training levy from employees sponsored for overseas and 10% training levy for those sponsored locally during the duration of the courses amounting to Kshs.4,894,500. This is contrary to Human Resource Policies and Procedures Manual for the Public Service of May 2016 Section H5 which states that, (1) ‘Officers undertaking courses lasting more than four (4) weeks and above in local training institutions will be required to contribute to the cost of their training at the rate of ten percent (10%) of their basic salary per month for the duration of the course. (2) Officers attending courses lasting more than four (4) weeks in institutions outside the country will contribute at the rate of twenty percent (20%) of their basic salary per month for the duration of the course. This is regardless of whether the courses are sponsored by the Government of Kenya or by Development Partners through bilateral or multilateral arrangements’. Further no documentary evidence of recovery of Kshs.4,894,500 from the sponsored employees was availed for audit review.

Consequently, the management is in breach of the Human Resource Policies and Procedures Manual for the public service of May 2016 and the propriety of the expenditure amounting Kshs.4,894,500 for the year ended 30 June 2018 could not be ascertained.

2.3 Irregular Sponsorship of Undergraduate Courses

Note 9 to the financial statements for the year ended 30 June 2018 reflects Kshs.128,273,058 in respect of staff training. Included in this amount is Kshs.5,048,673, being tuition, subsistence allowances and airfares for two (2) employees undertaking various undergraduate courses abroad, contrary to Paragraph H.9(1) of Human Resource Policies and Procedures Manual for the Public Service of May 2016 which states that, ‘The government shall not sponsor serving officers for undergraduate programs. Where there is need for skills at this level, the government will procure the same from the labor market’.

Further, the management did not provide details of how the training beneficiaries were selected in compliance with Public Service Commission Human Resources Policies Paragraph H.3(3) which states that, ‘Selection of trainees for all training programs will be based on identified needs and will emphasize on training for performance improvement that address individual, organizational and national goals’.

Under the circumstances, the management is in breach of the Human Resource Policies and Procedures Manual for the Public Service of May 2016.

3.0 Lack of Approved Staff Establishment

The Kenya Maritime Authority's personnel records indicated that as at 30th June 2018, the Authority had one hundred and twenty-two (122) employees. However, the management did not provide an approved staff establishment indicating the maximum number of employees allowed in the existing positions in the Authority, contrary to Section 5(3) of the State Corporations Act Cap 446 which states that, 'A state corporation may engage and employ such number of staff, including the chief executive, on such terms and conditions of service as the Minister may, in consultation with the Committee, approve'.

Under the circumstances, the Authority is in breach of the Law.

4.0 Salary Over Commitment

The Authority's payroll for the month of June 2018 indicated that it had made deductions on salaries of five (5) employees above the recommended percentage, contrary to section 19(3) of the Employment Act, 2007 which states that, 'total amount of all deductions made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages or such additional or other amount as may be prescribed by the Minister either generally or in relation to a specified employer or employee or class of employers or employees or any trade or industry'.

Consequently, the Authority is in breach of the law.

5.0 Employees Above the Age of Sixty (60) Years

The payroll for the year ended 30 June 2018 indicated that as at 30th June 2018, the Authority had incurred employee costs of Kshs.10,720,190 in respect to two (2) employees who were above the mandatory retirement age of sixty (60) years contrary to Public Service Commission Human Resource Policies of May 2016 Paragraph D1 which states that, 'All officers shall retire from the Service on attaining the mandatory retirement age of 60 years, 65 years for persons with disabilities and/or as may be prescribed by the government from time to time. The management did not avail for audit authority or approval from the head of Public Service to retain these employees in employment beyond the mandatory retirement age.

Consequently, the Authority was in breach of the Public Service Commission Human Resource Policies of May 2016.

6.0 Irregular Extension of Employees on Temporary Appointment

Note 9 to the financial statements for the year ended 30 June 2018 reflects staff wages of Kshs.5,305,851 in respect to nine (9) employees engaged on temporary basis. Payroll records availed for the audit review indicated that Kshs.1,732,000 was paid to four (4) employees who had been in service for more than twelve (12) months, contrary to Paragraph B.17 (5) of the Kenya Maritime Authority Human Resource Manual which states that, 'Temporary appointment; may be necessary to relieve employees on leave and perform short-term assignments. Appointment on temporary terms will apply to cases

where the service of any employee would normally not be required beyond a period of twelve (12) months’.

Consequently, the Authority contravened its own Policy on engagement of temporary employees and the propriety of staff wages of Kshs.1,732,000 for the year ended 30 June 2018 could not be ascertained.

7.0 Procurement of Training Services from Non-Prequalified Suppliers

Note 9 to the financial statements for the year ended 30 June 2018 reflects Kshs.128,273,058 in respect of staff training. Included in this amount is Kshs.31,117,043 paid to five (5) institutions that offered training services to the Authority during the year. However, these institutions were not in the list of prequalified service providers for the period under audit review as detailed below:

No.	Description	Institution	Amount (Kshs)
1	Training Services	Citadel Consultants	367,500
2	Training Services	Bellie & Roaster Management Solutions	1,972,000
3	Training Services	Indepth Research Services	7,387,283
4	Training Services	Versed Professional Services Ltd	3,758,400
5	Training Services	Strathmore Business School	17,631,860
	TOTAL		31,117,043

The management did not provide satisfactory explanation as to how it identified and selected the training institutions.

Consequently, the Authority contravened the provisions of the Public Procurement and Assets Disposal Act 2015 and the propriety of staff training costs of Kshs.31,117,043 for the year ended 30 June 2018 could not be ascertained.

8.0 Irregular Recruitments

Personnel records of newly recruited staff indicated that the Authority engaged five (5) employees during the year ended 30 June 2018. However, job advertisement, a list of applications, applicants interview results and recommendations for employment were not availed for audit review. Further, of the five (5) employees recruited, one was engaged on contract basis at grade KMA 5, contrary to Paragraph B.19 (1) (iii) of the Kenya Maritime Authority Human Resource Manual which requires appointment on contract to be limited to senior levels as determined by the Board from time to time. According to the Authority’s grading structure, senior levels range from KMA 1 to KMA 4.

Further, one employee was confirmed on permanent and pensionable terms as Assistant Legal Adviser on grade KMA 5. However, the employee’s personal file showed that the employee was issued with two appointment letters dated 6th March 2017, one for grade KMA 6 with a gross salary of Kshs.105,500 per month and the other for grade KMA 5 with

a gross salary of Kshs.130,000 per month. However, the employee was earning the salary based on grade KMA 5 during the year under review.

Consequently, the Authority was in breach of the law and the propriety of employee's cost of Kshs 1,560,000 for the year ended 30 June 2018 could not be ascertained.

9.0 Irregular Secondment of an Employee

Personnel and other records availed for audit review indicated that Kenya Maritime Authority's 97th full Board meeting held on 11th December 2017 approved the secondment of the Authority's grade KMA 5 staff to Lamu County Government for a term of five (5) years, contrary to Paragraph B.32(1) of the Kenya Maritime Authority Human Resource Policy Manual which requires the secondment to be for officers on KMA 4 to KMA 2 for a period not exceeding three years, renewable once.

Consequently, the Board approval of secondment for an employee at grade KMA 5 is in breach of the Authority's policy.

10.0 General Office Expenditure

10.1 Entertainment Expenses

Note 13 to the financial statements for the year ended 30 June 2018 reflects Kshs.2,897,557 in respect of entertainment expenditure. Included in this amount is Kshs.1,114,262 paid to various suppliers and service providers who were not in the list of suppliers maintained by the Authority, contrary to Section 105 of the Public Procurement and Asset Disposal Act, 2015 which states that, 'A procuring entity may use a request for quotations from the register of suppliers for a procurement'.

Further, the expenditure included a total of Kshs.481,750 paid to a hotel engaged to provide lunch and snacks for a workshop in Kisumu. However, procurement minutes showed that the Authority opened and evaluated a bid from one supplier who was then awarded the tender, contrary to Section 106 (2) (d) of the Public Procurement and Asset Disposal Act, 2015 which states, 'at least three persons shall submit their quotations prior to evaluation.' In addition, the professional opinion indicated that quotations were sent on 30th May 2018 and closed on 31st May 2018 at 10:00am, thus denying the bidders adequate time to prepare a quotation, contrary to Section 105 (2) (c) of the Public Procurement and Asset Disposal Act, 2015 which states that, 'the accounting officer of a procuring entity shall give the request to each person early enough so that the person has adequate time to prepare a quotation'.

Consequently, the Authority was in breach of the Law and the propriety of entertainment costs of Kshs.1,596,012 for the year ended 30 June 2018 could not be ascertained.

10.2 Overseas Air Travel and Foreign Duty Travel Allowances

Note 13 to the financial statements for the year ended 30 June 2018 reflects Kshs.375,973,734 in respect of general office expenditure. Included in this amount is Kshs.22,474,260 in respect to domestic and overseas air travel costs and Kshs.69,794,866 in respect to duty travel allowances all totaling to Kshs.92,269,126. Records availed for audit verification of the domestic and overseas air travel and domestic

Report of the Auditor-General on the Financial Statements of Kenya Maritime Authority for the year ended 30 June 2018

and foreign duty travel allowances showed that air travel of Kshs.4,374,954 was paid for members of staff travelling abroad for various conferences, activities and trainings while Kshs.12,389,169 was paid as foreign duty travel all totaling to Kshs.16,764,123. However, foreign travel clearance for these employees was not availed for audit review contrary to Circular No. OP/CAB.9/9 by the Head of Public Service which requires officers travelling abroad to seek clearance from the Principal Secretary of the parent Ministry.

Consequently, the management is in breach of the travel guidelines and the propriety of overseas air travel and foreign duty travel allowances of Kshs.16,764,123 for the year ended 30 June 2018 could not be ascertained.

10.3 Payment for Unapproved Club Fees for Staff

Included in note 13 is Kshs.620,000 in respect of club fees. However, records availed for audit review indicated that on 21 December 2013, the Authority's Human Resource Department prepared a proposal for the employees in management positions to join a fitness club paid for by the employer. However, there was no evidence that the proposal had been approved by the Board for implementation which is empowered by Section 7 of the Kenya Maritime Authority Act to administer the assets and funds of the Authority in such manner and for such purpose as shall promote the best interests of the Authority in accordance with the Act.

Consequently, the management is operating the club membership without Board approval and the propriety of club fees of Kshs.620,000 for the year ended 30 June 2018 could not be ascertained.

11.0 Office Rent Prepayments

Note 17 to the financial statements for the year ended 30 June 2018 reflects Kshs.26,452,458 in respect of prepayments. Included in this amount is Kshs.1,000,000, being Lamu office rent prepayment for twenty (20) month period between July 2018 and February 2020. However, the advance payment was contrary to Section 146 of the Public Procurement and Asset Disposal Act, 2015 which states that, 'No works, goods or services contract shall be paid for before they are executed or delivered and accepted by the accounting officer of a procuring entity or an officer authorized by him or her in writing except where so specified in the tender documents and contract agreement. Such an advance payment shall not be paid before the contract is signed'. Further, there was no security provided by the landlord for the amount of the advance payment.

Consequently, the propriety, legality and validity of Kshs.1,000,000 Lamu office rent prepayment as at 30 June 2018 could not be confirmed.

12.0 Procurement of Desktop Computers

Note 23 to the financial statements for the year ended 30 June 2018 reflects Kshs.4,944,815 in respect of computers and IT equipment additions. Included in this amount is Kshs.2,876,364, being procurement of twenty-three (23) desk top computers. However, the procurement records availed for audit verification indicated that the evaluation committee for tender number KMA/COMP/002/2017 for supply of twenty-three

(23) desktop computers, recommended award based on combined score for the technical and financial score as required by Section 86(b) of the Public Procurement and Asset Disposal Act, 2015 for request for proposals instead of award based on Section 86(a) which states that, 'the successful tender is, the tender with the lowest evaluated price'.

Further, the tender was awarded to a bidder whose CR12 indicated that the company was owned by non-Kenyans (Indian Nationals), contrary to Section 3(i) of the Public Procurement and Asset Disposal Act, 2015 which requires promotion of local industries, Section 155(3) b requires preference to be given to firms where Kenyans are shareholders and Section 157(8) requires exclusive preference shall be given to citizens where funding is 100% funded by National Government or a Kenyan Body and is below the prescribed threshold.

Consequently, the Authority was in breach of the Law and value for money on acquisition of computers of Kshs.2,876,364 could not be ascertained for the year ended 30 June 2018.

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, because of the significance of the matters discussed in the Basis for Adverse Opinion and Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1.0 Board of Directors Costs

1.1 Allowances Paid for Activities Not in the Board Work Plan

Note 10 to the financial statements for the year ended 30 June 2018 reflects Kshs.32,011,026, being allowances and other expenses, out of which Kshs.9,794,613 was paid for activities that were not in the Board's annual work plan. These, events were known annual events which should have been included in the Board's annual work plan as tabulated below:

Details	Amount (Kshs)
IMO Meetings	4,960,833
ASK Shows	605,600
KECOSO Games	325,900

Details	Amount (Kshs)
Lamu Festivals	257,400
Others	3,644,880
TOTAL	9,794,613

Consequently, the propriety and validity of Board of Directors costs of Kshs.9,794,613 for the year ended 30 June 2018 could not be confirmed.

1.2 Allowances Paid to Board of Directors Performing the Roles of Management

Note 10 to the financial statements for the year ended 30 June 2018 reflects Kshs.32,011,026, being allowances and other expenses, out of which Kshs.10,375,857 was paid for activities that were not part of the board's roles and functions but that of the management contrary, to Mwongozo Clause 1.9 which states that, 'the board should at a minimum focus on eight issues enumerated: (a) review of management's implementation of strategies, policies and plans, (b) Risk assessment and management, (c) Budgeting and Financial management, (d) Quality Assurance processes, (e) Board evaluation, (d) Strategic planning and review, (e) Governance and compliance, (f) Competence development for Board members, as detailed below;

Details	Amount (Kshs)
IMO Meetings	4,960,833.20
ASK Shows	605,600.00
KECOSO Games	325,900.00
Lamu Festivals	257,400.00
Others	4,208,124.00
TOTAL	10,357,857.20

Consequently, the propriety and validity of Board of Directors expenditure of Kshs.10,357,857 for the year ended 30 June 2018 could not be confirmed.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standard requires 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 Public Sector Accounting Standards (IPSAS) 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.

In preparing the financial statements, management is responsible for assessing Kenya Maritime Authority's 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 Kenya Maritime Authority or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of Kenya Maritime Authority's 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 Kenya Maritime Authority's 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 money is applied in an effective manner in line with Article 229(6) of the Constitution of Kenya, 2010.

Those charged with governance are responsible for overseeing Kenya Maritime Authority's 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 Kenya Maritime Authority's 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 review is planned and performed to express a conclusion with limited assurance as to whether, in all material respects, the activities, financial transactions and information reflected in Kenya Maritime Authority's financial statements are in compliance with the authorities that govern them 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of Kenya Maritime Authority's financial statements and review of compliance, I consider internal controls 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 Kenya Maritime Authority's 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 Kenya Maritime Authority'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 Maritime Authority to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of Kenya Maritime Authority's 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 Maritime 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.



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

Nairobi

22 May 2019