

REPORT OF THE AUDITOR-GENERAL ON KENYA MARITIME AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Maritime Authority as set out on pages 1 to 46, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, 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 Maritime Authority as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya Maritime Act, Cap 370 of the Laws of Kenya and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Cash and Cash Equivalents

The statement of financial position reflects a cash and cash equivalents balance of Kshs.908,207,382 which, as disclosed in Note 20 to the financial statements, included an amount of Kshs.279,311,839 held in a current account with a local commercial bank. However, and as previously reported, the June 2019 bank reconciliation statement for the account reflected an amount of Kshs.4,344,000 in respect of payments in bank statement not recorded in cash book dating back to the month of June, 2018. Available records indicated that the payment was made to a legal firm representing the Authority. However, the payment was not supported by a payment voucher, supporting documents used for the procurement of the services, evidence of services rendered and authorization of remittance of the funds to the law firm.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.908,207,382 could not be confirmed.

2. Domestic Air Travel and Local Duty Travel Allowances

The statement of financial performance reflects an amount of Kshs.273,447,225 under general office expenditure which, as disclosed in Note 17 to the financial statements, includes domestic and overseas air travel costs of Kshs.20,070,669 and duty travel

allowances - domestic and foreign of Kshs.44,452,868, all totalling Kshs.64,523,537. However, the expenditure included Kshs.737,410 spent on domestic air travel and Kshs.1,342,242 spent on local duty travel allowances, all totalling to Kshs.2,079,652 for staff of the State Department for Shipping and Maritime Affairs. However, the Management did not provide explanations why Kenya Maritime Authority incurred the expenditure on behalf of the State Department which has its own budget.

Consequently, the propriety and validity of domestic and overseas air travel and duty travel allowances of Kshs.2,079,652 could not be confirmed.

3. Unsupported Bank Balance - House Loan Guarantee

The statement of financial position reflects a balance of Kshs.214,673,878 in respect of mortgage guarantees, which as disclosed in Note 24 to the financial statements, includes an amount of Kshs.184,173,878 relating to house loan guarantee held in a local commercial bank. However, the supporting certificate of bank balance as at 30 June, 2019 was not provided for audit verification.

In the circumstances, the accuracy and completeness of the house loan guarantee balance of Kshs.184,173,878 could not be confirmed.

4. Inventories

The statement of financial position reflects an inventories balance of Kshs.4,852,851 as at 30 June, 2019. However, included in the balance is an amount of Kshs.3,057,037 whose physical stock count balance was valued at Kshs.2,540,203, thus resulting into an unreconciled and unexplained variance of Kshs.516,834.

Consequently, the accuracy and completeness of inventories balance of Kshs.4,852,851 could not be confirmed.

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

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 Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts indicates that the Authority had an approved budget of Kshs.1,656,560,000 compared to actual receipts of Kshs.1,521,905,508 or 92% of budgeted receipts. Similarly, the Authority's actual expenditure amounted to Kshs.790,153,466 against a budgeted expenditure of Kshs.1,097,918,000 resulting to an under-expenditure of Kshs.307,764,534 or 28% of the budgeted expenditure.

The under-expenditure may have affected the planned activities of the Authority and could have impacted negatively on service delivery to the public.

2. Unresolved Prior Year Audit Matters

As disclosed under the progress on follow up of auditor recommendations section of the financial statements, various prior year audit issues remained unresolved as at 30 June, 2019. Management has not provided reasons for the delay in resolving the prior year audit issues

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 Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Outstanding Imprests

As disclosed in Note 20(a) to the financial statements, the statement of financial position reflects a cash and cash equivalents balance of Kshs.908,207,382 as at 30 June, 2019. Included in the balance is an amount of Kshs.8,439,817 in respect to outstanding imprests to staff and Kshs.1,613,000 in respect of outstanding imprests to Directors, all totalling to Kshs.10,052,817. However, imprests amounting to Kshs.2,863,099 had fallen due but had not been surrendered, contrary to Regulation 93(5) of the Public Finance Management (National Government) Regulations, 2015 which provides that a holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station.

Management was, therefore, in breach of the Law.

2. Trade and Other Receivables from Exchange Transactions

The statement of financial position and Note 21 to the financial statements reflect trade and other receivables from exchange transactions balance of Kshs.85,495,420. However, the following observations were made:

2.1 Trade Receivables

As previously reported, included in the trade receivables from exchange transactions balance of Kshs.85,495,420 is an amount of Kshs.13,492,209 in respect of trade receivables, out of which Kshs.6,604,812 had been outstanding since 1 July, 2015. The Management did not provide satisfactory explanations why these debts had not been collected and no evidence was provided to indicate that the matter had been referred to an agency for collection as provided in the credit policy. The policy provides that any amount outstanding for over forty-five (45) days should be referred to an agency to ensure follow up and subsequent settlement.

Consequently, the recoverability and validity of trade debtors balance of Kshs.6,604,812 could not be confirmed.

2.2 Other Non-Trade Receivables

2.2.1 Supply, Review and Installation of Enterprise Resource Planning

The trade receivables also includes an amount of Kshs.52,561,795 in respect of other non-trade receivables, out of which an amount of Kshs.2,275,749 related to a claim from a supplier for non-performance of contractual obligations. The payment represented 20% of the contract sum of Kshs.11,378,743 which was payable after first project meeting, contract sign off and signing of the project charter. The contract for supply, review, upgrade, installation and support of the Enterprise Resource Planning (ERP) system and integration with the electronic data management system and other systems was signed on 15 December, 2016 for a contract period of twelve (12) weeks. Available records showed that the Project stalled before reaching the second milestone and the Management indicated that efforts to recover the claim was ongoing. However, as at the time of audit in the month of September, 2019, thirty-two (32) 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 could not be confirmed.

2.2.2 Advance Payment for Construction of Headquarters

Included in the other non-trade receivables balance of Kshs.52,561,795 is an amount of Kshs.40,885,915 in respect to an advance payment to a contractor for construction of the Authority's Headquarters. However, the validity of the advance payment security lapsed on 31 January, 2018 and had not been renewed as at 30 June, 2019. Further, the Management provided a partial advance security of Kshs.11,569,634 issued by a Bank on 05 November, 2019 and valid up to 02 February, 2020. The balance of

Kshs.29,316,281 or 72% of the advance payment was therefore not secured. The payment was therefore, contrary to Section 147(1) of the Public Procurement and Asset Disposal Act, 2015 which provides that under exceptional circumstances, advance payment may be granted and shall not exceed twenty per cent (20 %) of the price of the tender and shall be paid upon submission by the successful tenderer to the procuring entity of an advance payment security equivalent to the advance itself and that security shall be given by a reputable bank or any authorized financial institution issued by a corresponding bank in Kenya recognized by the Central Bank of Kenya, in case the successful tenderer is a foreigner.

In the circumstances, the validity, regularity and recoverability of other non-trade receivables balance of Kshs.29,316,281 could not be confirmed.

2.3 Provision for Doubtful Debts

As disclosed in Note 21 to the financial statements, the Authority made a provision for doubtful debts amounting to Kshs.11,644,824 representing 86% of the trade receivables balance of Kshs.13,492,209. As previously reported, according to the Authority's policy on provision for bad and doubtful debts, receivables outstanding for more than 100 days qualify to be provided for. However, there was no evidence of the debt collection strategies implemented by the Authority. Further, the reasonableness of the policy to provide for all debts outstanding for one hundred (100) days and above could not be confirmed.

3. Capital Work in Progress

As disclosed in Note 27 to the financial statements, the property, plant and equipment balance of Kshs.1,572,223,087 includes an amount of Kshs.1,235,282,101 in respect of capital work in progress being the cumulative cost of the ongoing works on Kenya Maritime Authority Headquarters Project 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:

3.1 Payment of General Preliminaries

As previously reported, the capital work in progress balance of Kshs.1,235,282,101 includes an amount of Kshs.539,431,019, being payments for interim certificate numbers 2, 3 and 4. Audit review of the interim certificates indicated that, the payments were made by the Authority for particular preliminaries included in 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 groundbreaking ceremony. The 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 actual cost incurred.

Consequently, the propriety and validity of ground-breaking ceremony cost of Kshs.3,500,000 could not be confirmed.

3.2 Payment of Rent

As previously reported, included in the capital work in progress balance of Kshs.1,235,282,101 are payments for rent amounting to Kshs.2,070,000, being costs incurred by the 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 Paragraph 30 (b) of International Public Sector Accounting Standard No. 17 – Property, Plant and Equipment - which provides that the cost of an item of property, plant, and equipment comprises: 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, the Appendix to the conditions of contract clearly provided Kshs.5,000,000 as the minimum for insurance of other property.

Consequently, the validity of Kshs.2,070,000 in respect of work in progress could not be confirmed.

3.3 Construction of Headquarters Subcontracts

Included in the contract sum of Kshs.1,728,176,418 for construction of Kenya Maritime Authority Headquarters, are prime costs and provisional sums amounting to Kshs.390,452,000 or 22.6%, contrary to the guidelines provided by the Public Procurement Oversight Authority, which provides 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’.

Consequently, the Authority contravened the Law and the validity and propriety of prime costs and provisional sums amounting to Kshs.390,452,000 could not be confirmed.

3.4 Electrical Works Sub- Contract

The Authority evaluated sub-contractors to carry out works listed in provisional sums and prime costs under the supervision of the main works contractor. However, review of the procurement of the electrical works contractor revealed that the lowest evaluated bidder had quoted Kshs.115,976,976 which was corrected to Kshs.224,292,876 at evaluation stage, contrary to Section 82 of the Public Procurement and Asset Disposal Act, 2015 which states that ‘the tender sum as submitted and read out during the tender opening

shall be absolute and final and shall not be the subject of correction, adjustment or amendment in any way by any person or entity’.

Further, records provided for audit indicated that the Authority disengaged from the subcontract on 5 November, 2019 and the subcontractor acknowledged the disengagement on 19 November, 2019. However, based on the professional advice by the Solicitor-General on 1 November, 2019, the Kenya Maritime Authority has no contractual relationship with the subcontractor, but the main contractor. Therefore, the subcontractor may seek legal redress and be awarded damages.

Consequently, the Management was in breach of the Law. Further, the validity and regularity of the electrical contract price of Kshs.224,292,876 could not be confirmed.

4. Non-Submission of Financial Statements for Audit- Mortgage Guarantees

As previously reported, the statement of financial position reflects a balance of Kshs.214,673,878 in respect of mortgage guarantees. Available information indicated that the Authority had a staff car loan scheme with a balance of Kshs.30,500,000 and a housing mortgage scheme with a balance of Kshs.183,620,370 as at 30 June, 2019, operated by two local commercial banks. However, the 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 provides 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 officers requires each scheme to be subjected to annual audit.

As a result, the completeness and legality of mortgage guarantees balance of Kshs.214,673,878 could not be confirmed.

5. Employee Costs

As disclosed in Note 13 to the financial statements, the statement of financial performance reflects an expenditure of Kshs.415,217,915 relating to employees costs. The following observations were made;

5.1 Training in Foreign Country Organized by Local Organization

The staff training expenditure also includes accommodation allowances of Kshs.494,179 paid to two (2) Directors of the Authority to attend a training on corporate governance organized by Strathmore Business School, in Dar-es-Salaam, Tanzania. It is not clear why the Management allowed the two Directors to be trained in a foreign country by an Institution based in Kenya, contrary to Paragraph 4.2.1 of the Guidelines on Managing Training in the Public Service of February, 2017 which provides that an approval to train

in foreign based institutions will be granted only in instances where the course applied for is not available in any local institution.

In the circumstances, the Management was in breach of the Law and the regularity and propriety of the expenditure amounting to Kshs.494,179 on training could not be confirmed.

5.2 Employees Above the Age of Sixty (60) Years

Audit of the payroll for the year ended 30 June, 2019 indicated that the Authority engaged two (2) employees on 3 January, 2019 and on 28 March, 2019 on three (3) year contracts. However, the two employees were above the mandatory retirement age of sixty (60). This is contrary to Paragraph D.21 of the Human Resource Policies and Procedures Manual for the Public Service, 2016 which provides that all officers shall retire from the Service on attaining the mandatory retirement age of 60 years, 65 years for persons with disabilities or as may be prescribed by the government from time to time.

Consequently, the Management was in breach of the Law.

5.3 Irregular Procurement of Training Services

Included in the expenditure of Kshs.89,043,531 in respect of staff training was an amount of Kshs.4,513,148 not included in the procurement plan of the Authority. This is contrary to Regulation 51(3) of the Public Finance Management (National Government) Regulations, 2015 which states that the Accounting Officer should make an expenditure commitment only against the procurement plan approved for that entity in accordance with the Public Procurement and Asset Disposal Act, 2015 and the Regulations made thereunder.

Consequently, the Authority contravened the provisions of the Public Procurement and Asset Disposal Act, 2015 and the propriety of staff training costs of Kshs.4,513,148 could not be ascertained.

5.4 Employees With Net Salaries Less than One Third of Basic Salary

Audit of the payroll for the year ended 30 June, 2019 revealed that the net pay for four (4) employees totalling to Kshs.265,753 was less than a third of their corresponding basic pay of Kshs.1,282,917, contrary to Section 19(3) of the Employment Act, 2007 which states that the 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.

Consequently, the Management was in breach of the Law.

6. General Office Expenditure

As disclosed in Note 17 to the financial statements, the statement of financial performance reflects an amount of Kshs.273,447,225 under general office expenditure. The following observations were made:

6.1 Irregular Procurement of Motor Vehicles and Boat Insurance

The general office expenditure includes insurance expenses of Kshs.7,720,395 out of which an amount of Kshs.3,003,788 is in respect of motor vehicles and boat insurance. However, the following anomalies were noted:

- i. Requests for quotations provided for audit review did not specify the risks to be covered and limits of cover. Further, review of documents submitted by bidders revealed that each bidder quoted for different cover limits and risks, hence the bid prices were not comparable.
- ii. Audit review of tender evaluation minutes revealed that no technical evaluation of the bids was done.
- iii. Audit review of the quotations revealed that only two (2) bidders responded out of the six (6) invited. However, the quotations were evaluated, contrary to Section 106 (2)(d) of the Public Procurement and Asset Disposal Act, 2015 which requires the Accounting Officer to ensure that at least three (3) persons shall submit their quotations prior to evaluation.
- iv. The Authority used requests for quotations procurement method. However, a list of the insurance providers and details on how the bidders were identified were not provided for audit verification.

In the circumstances, the Management was in breach of the Law and the validity, regularity and propriety of the expenditure on motor vehicles and boat insurance services amounting to Kshs.3,003,788 could not be confirmed.

6.2 Goods Supplied Beyond the Validity Period - Office Uniforms and Clothing

The general office expenditure also includes an amount of Kshs.615,820 in respect of office uniforms and clothing. However, included in this amount is Kshs.470,835 in respect of goods procured through Purchase Orders (POs) raised in the month of April, 2018 but delivered in November, 2018, about six (6) months after the validity period of the POs had lapsed. This is contrary to Regulation 53 of the Public Finance Management (National Government) Regulations, 2015 which provides that the validity period of Local Purchase Order is thirty (30) days.

Consequently, the Management was in breach of the Law in respect of the expenditure.

7. Loans to Members of Staff Beyond Approved Limit

During the year under review, two (2) employees of the Authority were provided with car loan benefits through a scheme administered by a bank on behalf of the Authority. However, scrutiny of the loan beneficiaries revealed that car loans were advanced to two (2) employees in excess of the approved Salaries and Remuneration Commission limits as summarized below:

Kenya Maritime Authority Job Group	Civil Service Job Group	Maximum Loan Limit (Kshs.)	Principal Loan Amount Advanced (Kshs.)	Excess Loan Advanced (Kshs.)
8	H	800,000	1,349,634	549,634
3	R	3,000,000	3,576,000	576,000
Total		3,800,000	4,925,634	1,125,634

The excess car loan of Kshs.1,125,634 is contrary to Salaries and Remuneration Commission Circular No. SRC/023/12/2014 of 17 December, 2014 which provides the thresholds for car loan and Mortgage Scheme benefits for various cadres of public officers in the Public Service.

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

8. Operating a Bank Account Without Approval of The National Treasury

Section 28(1) of the Public Finance Management Act, 2012 provides that The National Treasury shall authorize the opening, operating and closing of bank accounts and sub accounts for all National Government entities. During the year under review, the Management opened a bank account for Multinational Lake Victoria Maritime Communications and Transport Project at a local Commercial Bank. However, the authority by The National Treasury to open the bank account was not provided for audit verification.

In the circumstances, the Management is in breach of the Law.

9. Interest Rate on Un-Utilized Car Loan Guarantee Fund

The statement of financial position reflects a balance of Kshs.214,673,878 under mortgage guarantees which, as disclosed in Note 24 to the financial statements, includes a car loan guarantee of Kshs.30,500,000. Paragraph 6(a) of the Service Agreement between the Authority and the bank operating the Scheme requires the parties to set interest rate for unutilized deposits held by the bank. However, no record was provided to show the interest rate had been set during the four (4) years that the car loan guarantee Fund had been in operation (from 27 June, 2015 to September, 2019). Further, review of the ledger revealed that no interest had been earned by the Authority on unutilized funds as the car loan guarantee ledger balance of Kshs.30,500,000 as at 30 June, 2019 comprised Kshs.14,134,509 being outstanding car loans and Kshs.16,365,491 being the balance held by the bank as un-utilized deposits.

Consequently, the Management was in breach of the Law and Service Agreement.

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, 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 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 the Board

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, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Authority's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Authority or to cease operations.

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 resources are 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 Authority's ability to continue 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 Authority to cease to continue 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

23 August, 2021