

REPORT OF THE AUDITOR-GENERAL ON KENYA NATIONAL SHIPPING LINE LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENT

Adverse Opinion

I have audited the accompanying financial statements of Kenya National Shipping Line Limited set out on pages 18 to 40, which comprise of the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity, statement of cash flows 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 National Shipping Line Limited as at 30 June 2017, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and do not comply with the Companies Act, 2015.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1. Late submission of Financial Statements

Kenya National Shipping Line Limited financial statements for the year ended 30 June 2017 were submitted to the Auditor-General on 14 November 2017, almost two (2) months after the statutory deadline of 30 September 2017. This is contrary to provisions of Section 47(1) of Public Audit Act, 2015 which requires the management to submit the financial statements to the Auditor-General within three (3) months after the end of the financial year to which the respective accounts relate.

Consequently, the Kenya Shipping Line Limited management is in breach of the law.

2. Inaccuracies in the Financial Statements

The financial statements for the year ended 30 June 2017 presented for audit had the comparative figures in the financial statement at variance with the last year's audited financial statements as shown below:-

Item	Note in the financial statements	Balance as per 2015/2016 audited financial statements (Kshs)	Comparative figure in the 2016/2017 financial statements (Kshs)	Variance (Kshs)
Finance Income	14	-	263,629	(263,629)
Finance Costs	16	-	(1,250,053)	1,250,053
Communication Expenses	7	-	7,724	(7,724)
Container Costs	7	63,081	55,357	7,724
Other Receivables	18	22,505,599	22,510,173	(4,574)
Trade receivable	18	437,332	37,223,933	(36,786,601)
Total		23,006,012	58,810,763	(35,804,751)

In the circumstances, the financial statement presented for audit do not comply with International Financial Reporting Standards (IFRS) No. 1 on presentation.

3. Going Concern

As previously reported, the statement of comprehensive income for the year ended 30 June 2017 reflects a loss of Kshs.46,157,888 resulting in an accumulated deficit of Kshs.375,817,266. Further, the current liabilities of Kshs.74,767,951 exceeded the current assets of Kshs.25,771,646 resulting in a negative working capital of Kshs.48,996,305.

Under the circumstance, the financial statements have been prepared on a going concern basis on the assumption that the entity will continue getting financial support from the Government, creditors and bankers.

4. Cash and Bank Balances

The statement of financial position reflects bank and cash balance of Kshs.8,179,156 as at 30 June 2017. This includes Kshs.64,937.28 (USD 658.33) in Barclays Bank Plc London current account whose monthly bank statements and bank balance confirmation certificate were not availed for audit review.

Further, bank reconciliation statements for 11 months (July 2016 to May 2017) were not availed for audit review.

In the circumstances the accuracy, validity and completeness of the cash and bank balance of Kshs.8,179,156 could not be confirmed.

5. Trade and Other Receivables

The statement of financial position reflects trade and other receivables of Kshs.17,040,570 as at 30 June 2017 and as detailed in note 18 to the financial statements, it includes a balance of Kshs.69,484,433 in respect of gross trade and other receivables of Kshs.52,443,863 in respect of provisions for bad and doubtful debts. However, included in the gross trade and other receivables is a balance of Kshs.31,088,340 which was not supported.

In addition, included in the trade receivables is an amount of Kshs.8,916,666 being VAT recoverable. Records availed indicated that the VAT recoverable was over twelve months. Further, the company does not have an effective credit policy and procedures in place with respect to estimating and providing for bad and doubtful debts in its financial statements.

Consequently, the accuracy, validity and recoverability of trade and other receivables balance of Kshs.17,040,570 could not be confirmed.

6. Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.48,103,056 which includes a balance of Kshs.6,237,942 in respect to Pay as You Earn of Kshs.6,194,446 and Tax withheld from merchants amounting to Kshs.43,496 which had not been remitted to Kenya Revenue Authority as at 30 June 2017. No explanation was provided by the management for the non-settlement of these statutory deductions. No provision in respect of penalties and interest resulting from non-payment of these deductions have been provided for in these financial statements.

In addition, included in trade and other payables is an amount of Kshs.5,572,043 which was due to two container leasing companies. Records availed for audit indicated that last written communication dated in 2009 between the entity and the two companies revealed that the balances outstanding at that time were Kshs.1,804,637.58 (USd22,958.13) and Kshs.3,489,376.50 (USd 45,000) respectively. The two container leasing companies have since stopped sending invoices for container leasing charges and monthly statements to Kenya National Shipping Line Ltd. The liabilities carried in trade payables in respect of the amounts due to these suppliers are based on outstanding negotiated balances which were never agreed upon and there were no statements received from these suppliers.

Consequently, the company did not comply with the law and in absence of statements, invoices or direct confirmation from the companies it has not been possible to confirm the accuracy of trade and other payables balance of Kshs.48,103,056.

7. Funds Awaiting Allotment

The statement of financial position reflects funds awaiting allotment balance of Kshs.233,681,500 as at 30 June 2017. Included in this balance is Kshs.40,000,000 in respect to government grants which has been wrongly classified as funds awaiting allotment of shares contrary to International Accounting Standards No. 20 on accounting for grants which states that a government grant is recognized as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. Note 20 to the financial statement further reports uncertainty surrounding the shareholding of the Company and an ongoing reorganization.

Consequently, accuracy and completeness of the funds awaiting allotment amount of Kshs.233,681,500 as at 30 June 2017 and the status of the shareholding of the Company could not be ascertained.

8. Employee Costs

The statement of comprehensive income reflects employment costs of Kshs.19,040,345 for the year ended 30 June 2017. Included in this balance is Kshs.428,625 in respect to acting allowance paid to the acting Managing Director for the period under review. However, the Managing Director has been serving in acting capacity for over 5 years having been appointed in the year 2013. This is contrary to Section C.14 (1) of the Public Service Commission Code of Regulations, of May 2016 on acting allowances, which states that acting allowance will not be payable to an officer for more than six (6) months.

Further, the acting Managing Director serving in job scale M5 was paid a monthly house allowance of Kshs.60,000 after an increment approved by the Board in March 2015.

However, this amount was above the salary scale set by the Salaries and Remuneration Commission as per the circular reference number SRC/ADM/CIR/1/13 Vol.III (126) of 10th December 2014, which capped the allowance payable to Kshs.20,000 for salary scale P-R which falls within the organization scale M4-5 for Mombasa region.

Under the circumstances, it was not possible to confirm the regularity of Kshs.908,625 paid to the acting Managing Director.

9. Administration Costs

The statement of comprehensive income reflects administration costs balance of Kshs.25,435,220. Included in this figure is Kshs.1,157,695 in respect of entertainment/meals allowance paid to directors and staff. However, entertainment/meal allowances were paid in addition to daily subsistence allowance. The daily subsistence allowance caters for all meals and accommodation to officers working outside their normal duty station. A payment of an additional lunch/entertainment allowance therefore resulted in a double payment.

Consequently, the regularity of Kshs.1,157,695 spent on entertainment could not be confirmed.

10. Dues to a Related Party

As previously reported, the statement of financial position as at 30 June 2017 reflects a balance of Kshs.26,664,895 in respect of liabilities due to a related party. The entity has indicated that these are transactions between the entity and Kenya Ports Authority. However, this amount differs with an amount of Kshs.28,121,000 reflected in the records maintained by the Kenya Ports Authority resulting in an un-reconciled difference of Kshs.1,456,105.

Consequently, it has not been possible to confirm the accuracy and completeness of the amount due to a related party of Kshs.26,664,895.

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

Emphasis of Matter

Uncertainty on Shareholding of the Company

Note 20 to the financial statement for the year ended 30 June 2017 reports uncertainty surrounding the shareholding of the Company and an ongoing reorganization. To effect the reorganization and increase the share capital, the Company had sought a court order to dispense with the requirement to serve notice to all the creditors of the Company but was denied. Since then, the Company has not served notice to all the creditors and the reorganization has stalled resulting to uncertainty of the shareholding.

Key Audit Matters

Key Audit Matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements, except for the matters discussed in the Basis for Adverse Opinion and Other Matter sections, I have determined that there are no other Key Audit Matters to communicate in my report.

Other matter

1. Budget Control and Performance

1.1. Revenue Budget

The statement of comparison of budget and actual amounts for the year ended 30 June 2017 reflects an approved income budget of Kshs.113,623,000. However, the entity actual revenue for the year amounted to Kshs.41,238,340 resulting in an under collection of Kshs.72,384,660 or 64% as detailed below;

Revenue Item	Final Budget (Kshs)	Actual Revenue (Kshs)	Under Collection (Kshs)	% Under Collection
Service Income	71,953,000	722,609	71,230,391	99%
Government Grants	40,000,000	40,000,000	-	0%
Finance Income	1,020,000	515,731	504,269	49%
Other Income	650,000	-	650,000	100%
Total	113,623,000	41,238,340	72,384,660	64%

This under collection was attributed by the entity to minimal trading and preparing unrealistic income budget.

The under collection of Kshs.72,384,600 or 64% may hinder the entity in achieving the set objectives and planned activities thus threatening the survival of the entity.

1.2. Expenditure Budget

Further, the entity had a total approved expenditure budget of Kshs.113,065,000 for the year under review. However, the entity's actual expenditure for the year amounted to Kshs.47,396,228 resulting in an under absorption of Kshs.65,668,772 or 58% as follows:

Expenditure Item	Final Budget (Kshs)	Actual Expenditure (Kshs)	Budget Utilization Difference (Kshs)	% Budget Utilization
Compensation of Employees	26,762,000	19,060,345	7,721,655	29%
Administrative Costs	30,431,000	25,435,220	4,995,780	16%
Service Costs	52,564,000	243,759	52,320,241	99.5%
Finance Cost	1,000,000	1,954,018	(954,018)	-41%
Depreciation	2,308,000	722,886	1,585,114	69%
Total	113,065,000	47,396,228	65,668,772	58%

There is need for the management to review the budget preparation mechanism, with a view of making realistic budgets.

Responsibilities of Management and those charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and for such internal control as management determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from

fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and for the purpose of giving an assurance on the effectiveness of the Kenya National Shipping Line Limited internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue offering 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 the Kenya National Shipping Line Limited to cease to continue offering services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on the audit, that;

- i. 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
- ii. In my opinion, proper books of account have not been kept by the Company, so far as appears from my examination of those books; and,

The Company's statement of financial position and statement of comprehensive income are not in agreement with the books of account.



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

Nairobi

30 July 2018