

# **REPORT OF THE AUDITOR-GENERAL ON KENYA RAILWAYS CORPORATION FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Kenya Railways Corporation set out on pages 29 to 60, which comprise the statement of financial position as at 30 June 2017, and the statement of profit or loss and comprehensive income, statement of changes of equity, statement of cash flows and statement of budget vs actual income and expenditure 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 Railways Corporation as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenya Railways Corporation Act, Cap 397 of the laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, except for the matters described in the Other Matter section of my report, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

### **Basis for Qualified Opinion**

#### **1.0 Property, Plant and Equipment**

##### **Illegal Allocations of Land**

The statement of financial position as at 30 June 2017 reflects a balance of Kshs.24,828,015,157 in respect of property, plant and equipment. However, and as reported in the previous year, various parcels of land were allocated to private developers by either the Commissioner of Lands or Local Authorities without the consent of the Corporation. Land measuring approximately 3 acres within Limuru Railway Station constituting industrial plots No.7882/2-10 was allocated to private developers. Similarly, private buildings have been put up on another piece of land measuring approximately 2 acres within Kikuyu Railway Station while in Mombasa parcels of land measuring approximately 1 and 0.75 acres adjacent to Mombasa Railway station have been allocated to private developers, without the Corporation's consent.

Consequently, the accuracy of property, plant and equipment balance of Kshs.24,828,015,157 as at 30 June 2017 could not be confirmed.

## **2.0 Current Assets (Short Term Investments)**

As reported in the previous year, the statement of financial position reflects short term investments balance of Kshs.1,689,586,411 as at 30<sup>th</sup> June 2017 which included an amount of Kshs.818,575,979 held as fixed deposit with Chase Bank Ltd at a rate of 12.5% p.a. However, Chase Bank was placed under receivership and Kenya Deposit Insurance Corporation (KDIC) appointed to assume management and control of the bank on April 7<sup>th</sup> 2016. A review of the issue in 2016/2017 confirmed the same remained unresolved.

## **3.0 Payables and Accrued Charges**

Included in payables and accrued charges balance of Kshs.2,063,344,432 as at 30 June 2017 is an amount of Kshs.1,253,678,273 relating to payables which have been outstanding for over a year. No satisfactory explanation was provided as to why the same had remained outstanding for this long. It has not been possible to confirm the accuracy and validity of the balance for payables and accrued charges of Kshs.2,063,344,432 in the statement of financial position as at 30<sup>th</sup> June 2017.

## **4.0 Inventories**

The statement of financial position as at 30 June 2017 reflects a current assets balance of Kshs.69,551,466,571 which includes stores inventories amounting to Kshs.3,610,264,866 which was not supported by stocktaking report and corresponding stock sheets.

In the circumstances it has not been possible to confirm the validity of inventories totaling to Kshs.3,610,264,866 as at 30 June 2017.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Railways Corporation 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 annual report and financial statements in Kenya. I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

## **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no key audit matters to communicate in my report.

## Other Matters

### Prior Year Unresolved Matters

#### 1.0 Unaccounted for Cash

##### 1.1 Staff Travel Advance Surrendered but not Banked

As reported in the previous year, audit evidence available indicates that an amount of Kshs.4,853,766.00 was surrendered by officers to the Corporation's cashier, but the same had not banked as summarized below;

Month	Cash Returned	Cash Banked	Cash Un-Accounted
July 2015	990,238.00	82,988.00	907,250.00
Aug 2015	424,832.00	244,431.00	180,401.00
Sept 2015	1,076,129.00	68,200.00	1,007,929.00
Oct 2015	477,151.00	0.00	477,151.00
Nov 2015	247,520.00	0.00	247,520.00
Dec 2015	106,159.00	32,300.00	73,859.00
Jan 2016	269,404.00	0.00	269,404.00
Feb 2016	286,512.00	0.00	286,512.00
Mar 2016	415,151.00	114,900.00	300,251.00
Apr 2016	438,937.00	48,900.00	390,037.00
May 2016	270,563.00	0.00	270,563.00
Jun 2016	<u>442,889.00</u>	<u>0.00</u>	<u>442,889.00</u>
<b>Total</b>	<b><u>5,445,485.00</u></b>	<b><u>591,719.00</u></b>	<b><u>4,853,766.00</u></b>

In the circumstances, the total cash of Kshs.4,853,766 has not been accounted for.

##### 1.2 Museum Revenue not Accounted

Further, scrutiny of the Corporation's records revealed that during the year ended June 2016, a total of Kshs.1,981,920 was collected as museum revenue and surrendered to the Corporation cashier for banking. However, no banking slips were availed to confirm banking of the total amount of Kshs.1,981,920 and the same had not been accounted.

All the above matters remained unresolved as at 30 June 2017.

### 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 of 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 Corporation's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the Government intends to cease operations of the Corporation. 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 Corporation'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 of Kenya. 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 judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 Corporation's 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 Corporation'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 Corporation 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 and business activities of the Corporation 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**

**15 August 2018**