

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Civil Aviation Authority set out on pages 1 to 50, which comprise the statement of financial position as at 30 June, 2019, statement of financial performance, statement of cash flows, statement of changes in net assets, and the statement of comparison of budget and actual amounts for the year then ended and 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 Civil Aviation 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 Civil Aviation (Amendment) Act, 2002 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Property, Plant and Equipment

The statement of financial position as at 30 June, 2019 reflects property, plant and equipment balance totalling Kshs.18,028,594,085, as further disclosed in Note 30(a) to the financial statements. However, the balance is affected by the following anomalies:

1.1 Lack of Ownership Documents for Lands and Buildings

As previously reported, ownership documents for land and buildings owned by the Authority were not provided for audit verification. These are buildings in Mombasa County, namely; thirty-one (31) housing units at Nyali, thirteen (13) housing units at Bamburi and staff houses at Miritini. Others are lands in Nairobi County, namely ; eighty-seven (87) acres at East African School of Aviation and one hundred and thirty-two (132) acres at Central Transmitting Station along Mombasa Road.

Similarly, ownership documents for property in Wajir, County, Plot No 405 at Bwagamoyo in Kilifi County, property L.R No.28192 at Lokichogio and Generator Room property at Lodwar in Turkana County, and Plot L.R No. 9042/26 and No. 28 at Embakasi Village in Nairobi County were not made available for audit verification. Management indicated that the Ministry of Lands and Physical Planning was processing the documents but did provide their expected date of issue.

1.2 Properties Allocated to Third Parties

Records on lands owned by the Authority indicated that four parcels of land were allocated to various private parties and thereafter registered in their names:

	Property	Acreage	Category of Registered Owner
1.	Mtito-Andei-Ngai Ndeithya Settlement Scheme/161	13 acres	Individual
2.	Bamburi Staff Housing	Not Known	Individual
3.	Central Stores in Nairobi	0.7733 Hectares	Individual
4.	East African School of Aviation	37 acres	Various

The Public Investment Committee (PIC) had in its 19th report recommended that the National Land Commission revokes the titles for Mtito Andei – Ngai Ndeithya, Bamburi Staff Housing and East Africa School of Aviation Plots and revert the properties to the Authority, in addition to registering the Authority as the owner of all its other parcels of land. However, there was no indication of the actions taken or progress made, if any, in implementing the recommendation.

In addition, the PIC had previously recommended that the National Land Commission, investigates circumstances under which ownership of Plot L.R 209/14372 in Nairobi County changed from public to private ownership. The investigation was to result in restitution of the land in line with Article 40(6) of the Constitution and Section 5 of the National Land Commission Act, 2012. However, no records were provided to confirm whether the investigation was conducted, or whether other remedial action was taken, on the matter.

In view of these issues, I have not been able to confirm the accuracy, completeness and ownership by the Authority of the Property, Plant and Equipment balance totalling Kshs.18,028,594,085 as at 30 June, 2019.

2. Revenue

The statement of financial performance reflects revenue from non-exchange transactions, air passenger service charge fee totalling Kshs.2,510,200,209, as further disclosed under Note 7 to the financial statements. The balance denotes revenue collected by the Kenya Revenue Authority (KRA) for sharing by the Kenya Civil Aviation Authority, Kenya Airways and Tourism Fund. However, data on the sum collected in the year under review was not provided for audit review and as a result, it was not possible to confirm the accuracy and completeness of the balance.

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

Prior Year Audit Issues

The audit report for the previous financial year had highlighted several unsatisfactory issues which included irregular procurement and spending on consultancy services for construction of hostels and a modern conference centre, construction of a perimeter wall at East African School of Aviation and provision for liability on a pending legal suit arising from cancellation of an aviation license in 2003. Others were on unconfirmed ownership of properties and irregular payment of subsistence allowances.

The matters highlighted in the report had not been resolved as at 30 June, 2019.

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. Failure to Utilize Some Modules of Human Resource Management System

The contract for the supply, installation and commissioning of Human Resource Management (HRM) System was awarded at a contract sum of Kshs.8,415,200 and was due for implementation in 34 weeks commencing June, 2014. Although, the whole contract price was paid to the contractor, modules for attendance, staff discipline and exit and pensions management were not utilized.

In the circumstance, value for money may not have been realized on the expenditure totalling Kshs.8,415,200 incurred on the system.

2. Terminated Electronic Document Management System Contract

The contract for the supply, installation and commissioning of Electronic Document Management (EDM) System was procured at a contract sum of Kshs.26,002,487. The contract was however, terminated on 08 November, 2016 after the contractor failed to execute the work as agreed even after having received payments totalling Kshs.9,100,871. However, there was no record of any legal action taken by Management to claim liquidated damages as provided for in the terminated contract.

Therefore Management may have breached the law and the failure to claim for liquidated damages could result in loss of public funds totalling Kshs.9,100,871.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, 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 standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall 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 of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) 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 going concern 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 the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Authority 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 overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in

which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable 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 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 the Authority to cease to continue to sustain its 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 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 communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



CPA Nancy Gathungu CBS
AUDITOR-GENERAL

Nairobi

27 October, 2021