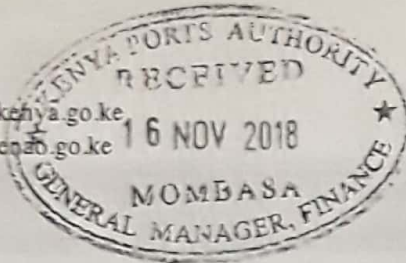


REPUBLIC OF KENYA

Email: oag@oagkenya.go.ke
Website: www.oagkenya.go.ke



COAST REGION HUB
P.O. Box 95202 - 80100
MOMBASA

OFFICE OF THE AUDITOR-GENERAL

REF: ADL/1/17/18(18)

MANAGING DIRECTOR
KENYA PORTS AUTHORITY

16 NOV 2018

RECEIVED
MOMBASA

16 November, 2018

The Managing Director,
Kenya Ports Authority,
P. O. Box 95005- 80100
MOMBASA,

*GMP
Please study, evaluate
and deal.*

Dear Sir,

**MANAGEMENT LETTER FOR THE FINANCIAL AND COMPLIANCE AUDIT
PERFORMED FOR YEAR ENDING 30 JUNE, 2018.**

*Dr. A. MD
16/11/18*

1.0 Introduction

The financial statements of are subject to audit by the Auditor-General in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the *Public Audit Act, 2015*.

The audit of for the year ended 30 June, 2018 was completed and the purpose of this letter is to bring to your attention the findings that were revealed during the audit.

2.0 Scope and Determination of Responsibility

The audit was conducted in accordance with International Standards for Supreme Audit Institutions. These standards require that the audit is planned and performed so as to obtain reasonable assurance that, in all material respects, fair presentation is achieved in the annual financial statements.

An audit includes:

- Examination on a test basis of evidence supporting the amounts and disclosures in the financial statements;

*PFA
Kindly furnish response
by closing business
Thursday 22nd November 2018
19/11/2018*

- Assessment of the accounting principles used and significant estimates made by management; and
- Evaluation of the overall financial statements presentation.

The audit will also include an examination, on a test basis, of evidence supporting compliance, in all material respects, with the relevant laws and regulations which came to our attention and are applicable to financial matters.

The matters mentioned in this letter are therefore those that were identified through tests considered necessary for the purpose of the audit and it is possible that there might be other matters and/or weaknesses that were not identified.

The financial statements, maintenance of effective control measures and compliance with laws and regulations are the responsibility of the Accounting Officer. Our responsibility is to express an opinion on these financial statements.

3.0 Respective Responsibilities of the and the Auditor-General

The is responsible for the preparation and fair presentation of the Financial Statements in accordance with International Financial Reporting standards 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.

The Responsibility of the Auditor-General is to express an independent opinion on the Financial Statements based on the audit findings.

4.0 STATEMENT OF FINANCIAL PERFORMANCE

4.1 Operating Revenue

Criteria

Kenya Ports Authority Container Operations Manual under 7 procedure requires the Senior Clerical Assistant to confirm that the Electronic Delivery Orders (EDOs) have been mapped into CATOS with the correct information and if any Variances found are reported to the shipping agent immediately and a terminal hold placed.

Findings

The statement of profit and loss and other comprehensive income reflected operating revenue of Kshs 42,736,520,000 being an increase of Kshs 3,132,843,000 or (7.9%) from Kshs 39,603,677,000 in the year ended 30 June 2017.

4.1.1 Variance between operational income and operational expenditure increase

The Statement of Comprehensive Income showed Kshs 42,738,520,000 being the operating revenue for the period ended 30 June 2018. It was noted that the operating revenue recorded a 7.9% increase from the previous year's balance.

shall pay to KRC such an amount as is required to make good the short fall within a period of 30 days following the reconciliation exercise.

KPA's exposure/Risk

The payment arrangement agreement substantively means that the Authority's revenue would be used to pay the Government of Kenya's debt to China Exim bank if the minimum volumes required for consignment are not met as per schedule one.

The China Exim bank would become a principle in over KPA if KRC defaults in its obligations and China Exim bank exercise power over the escrow account security.

The KPA assets are exposed since the Authority signed the agreement where it has been referred to as a borrower under clause 17.5 and any proceeding against its assets by the lender would not be protected by sovereign immunity since the government waived the immunity on the Kenya Ports Assets by signing the agreement.

The agreement is biased since any non-performance or dispute with the China Exim bank (the lender) would be referred to arbitration in China, whose fairness in resolving the disagreement may not be guaranteed

The authority did not disclose these guarantee in the financial statements

Recommendations

Disclose the pertinent issues and risk related to the guarantee in the financial statements

Confirm in the management representation letter the KPA assets are not a floating charge/guarantee to the Government of Kenya loan as the borrower

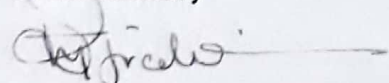
18. Management Comments

It would be appreciated if your comments on these findings are submitted within Seven Days from the date of this letter for incorporation in the audit report.

19. Appreciation

We would like to express our appreciation for the courtesy extended and assistance rendered by the staff of the Kenya Ports Authority during the audit.

Yours faithfully



F. T. Kimani

For: Auditor General