



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KENYA AIRPORTS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2010.

I have audited the accompanying financial statements of Kenya Airports Authority for the year ended 30 June 2010 set out at pages 15 to 38, which comprise the Statement of Financial Position as at 30 June 2010, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, together with a summary of significant accounting policies and other explanatory information, in accordance with the provisions of Section 14 of the Public Audit Act, 2003. 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.

Management's Responsibility for the Financial Statements

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

Responsibility of the Auditor General

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessments of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

effectiveness of the Authority's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence obtained is sufficient and appropriate to provide a basis for my opinion.

1. Long Term Loan

As similarly reported in the previous year, the Authority paid Kenya Revenue Authority withholding tax amounting to Kshs.7,668,155 on interest payable against a loan of Kshs.3,186,421,047 (Euros 34,599,359), extended to the Authority by a foreign bank (KBC).

However, and under normal circumstances, such tax ought to have been borne by the bank.

2. Operating Lease

The non-current assets balance of Kshs.21,436,102,000 as at 30 June 2010 includes an amount of Kshs.6,008,752,000 described as operating lease. The operating lease amount however excludes plot No. LR 9042/668 measuring 3.29 acres in Embakasi village which had not been valued for inclusion in the financial statements as at 30 June 2010, as its ownership is apparently in dispute. A further examination of the lease balance revealed the following other unsatisfactory observations:-

- (i) An unregistered parcel of land under Ref.KAA-D1-D4 measuring 0.867 acres and valued at Kshs.4,335,000 was, as in the previous year, excluded from the balance of Kshs.6,008,752,000.
- (ii) An undetermined value of land at Lokichoggio Airport was also excluded from the balance.
- (iii) The figure of Kshs.6,008,752,000 includes two parcels of land under Ref. LR.No.13512 and LR.No. 14231 at Jomo Kenyatta International Airport and other unidentified parcels at Wilson Airport, all of which have been allocated to third parties. Additional information indicates that this matter is pending in a court of law.
- (iv) The figure of Kshs.6,008,752,000 further includes a portion of Malindi Airport land under LR No.7669 and measuring 0.8925 hectares, allocated to a church organization, but on the other hand, excludes land LR No.8540 measuring 5912.5 sq. ft at the Airport, allocated to a petroleum company.

Under the circumstances, it has not been possible to confirm that the non-current balance of Kshs.21,436,102,000 is fairly stated as at 30 June 2010.

3. Embakasi Housing Scheme

As similarly observed in 2008/2009, the Authority owns 515 housing units at Embakasi Village, out of which 320 units are occupied by former staff of the Authority, Government employees and other un-identified occupants. The Authority took the three categories of tenants to court for non-payment of rent and illegal occupancy. However, and although the court ruled in June 2005 in favour of the Authority, no action appears to have been taken so far to enforce the decision of the court, and to evict the tenants and occupants.

Opinion

Except for the foregoing reservations, in my opinion, the financial statements present fairly, in all material respects, the financial position of the Authority as 30 June 2010 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with the Kenya Airports Authority Act (Cap. 395 of the Laws of Kenya).



A.S.M. Gatumbu
AUDITOR GENERAL

Nairobi

31 January 2011