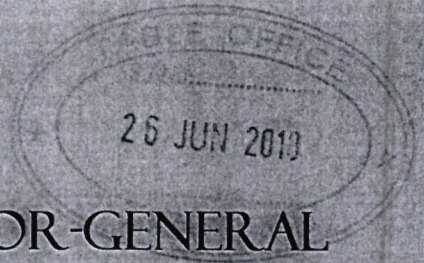


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Paper laid on the Table of the House by the Leader of the Majority Party [Hon. Aden Duale] on Tuesday 26th June 2018 [Afternoon].

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF LAPSSET CORRIDOR DEVELOPMENT AUTHORITY

FOR THE YEAR ENDED 30 JUNE 2017



# LAPSSET CORRIDOR DEVELOPMENT AUTHORITY



## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30<sup>th</sup>, 2017





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## ABBREVIATIONS

AfDB	African Development Bank AfDB
EIA	Environment Impact Assessment
FY	Financial Year
IPSAS	International Public Sector Reporting Standards
IFRS	International Financial Reporting Standards
IGAD	Intergovernmental Authority on Development
LAPSSET	Lamu Port South Sudan Ethiopia Transport
LCDA	LAPSSET Corridor Development Authority
NEPAD	New Partnership for Africa's Development
PFM	Public Finance Management
PSASB	Public Sector Accounting Standards Board
SEA	Strategic Environmental Assessment
SKETS	Support to Kenyan Energy and Transport Sector

**PART I**  
**ANNUAL REPORT**  
**2016/2017**

## I. KEY ENTITY INFORMATION AND MANAGEMENT

### (a) Background Information

The LAPSSET Corridor Development Authority (LCDA) is a State Corporation established pursuant to a Presidential Order, LAPSSET Corridor Development Authority Order, 2014 as per the Kenya Gazette Supplement No. 51, Legal Notice No. 58 of March, 2013. The Authority is domiciled in the Ministry of Transport, Infrastructure, Housing and Urban Development with Headquarters in Nairobi.

The Authority is tasked with overseeing the implementation of the LAPSSET Corridor regional infrastructure Project components linking Kenya with the neighbouring countries of Federal Democratic Republic of Ethiopia and Republic of South Sudan. The regional Infrastructure components are:-

- i. Interregional Highways from Lamu - Garissa - Isiolo, Isiolo – Lodwar - Nakodok and Juba (South Sudan), Isiolo to Moyale and to Addis Ababa (Ethiopia), and Lamu to Garsen;
- ii. Interregional Standard Gauge Railway lines from Lamu to Isiolo, Isiolo to Nakodok (Kenya/South Sudan border) and Juba (South Sudan), Isiolo to Moyale (Kenya/Ethiopia border) and Addis Ababa (Ethiopia), and Nairobi to Isiolo;
- iii. Crude Oil Pipeline from Lamu to Isiolo, Isiolo to Nakodok and Nakodok to Juba (South Sudan);
- iv. Product Oil Pipeline from Lamu - Isiolo - Moyale (Kenya) and Moyale to Addis Ababa (Ethiopia);

The other LAPSSET Corridor Program components as defined in the vision 2030, Kenya's long-term Development Plan include:-

- i. Lamu Port at Manda Bay consisting of 32 Deep Sea Berths;
- ii. International Airports at Lamu, Isiolo, and Turkana;
- iii. Resort Cities at Lamu, Isiolo and Turkana;
- iv. Merchant Oil Refinery at Lamu;
- v. High Grand Falls Multipurpose Dam;
- vi. Fiber Optic Cables and Communication Systems

### (b) Principal Activities

The Mandate of LCDA is to Plan, Coordinate and Sequence the implementation of the LAPSSET Corridor Program. The project components are implemented by different government Agencies and the Authority provides effective leadership in their implementation. The Authority therefore undertakes cross cutting and overarching roles by bringing together the Implementing Agencies and stakeholders to create synergies and ensure the projects are synchronized. The Authority further plays a significant role in guiding policy, mobilizing resources as well as monitoring and evaluation of the program components. Besides the fore stated, the Authority provides operational and technical oversight for the LAPSSET Corridor program to ensure the different Agencies deliver on their mandate. This mandate is derived from the Authority's functions as stipulated below:-

- vii. To Plan, Coordinate and Sequence the LAPSSET Corridor projects in collaboration with the implementing Ministries and Agencies;
- viii. To Coordinate implementation of LAPSSET Corridor projects across implementing Ministries and Agencies;
- ix. To Provide leadership, direction and guidance in operations and implementation of the LAPSSET Corridor;

**LAPSSET Corridor Development Authority**  
**Financial Statements For the year ended 30<sup>th</sup> June 2017**

- x. To Ensure timely implementation of the decisions and resolutions of the government;
- xi. To Mobilize funds for project components using a variety of resources including budgetary resources from government, donor loans, infrastructure bonds and private finance;
- xii. In collaboration with the relevant National and County government departments, to build the capacity of LAPSSET Corridor towns to manage the urban growth resulting from LAPSSET Corridor investments;
- xiii. To Promote the competitiveness and use of the LAPSSET Corridor for the transport of goods and people; and
- xiv. To Provide forum for the stakeholders in the LAPSSET Corridor

**Vision, Mission and Core Values**



<b>Who are we</b>	A state corporation established vide the Presidential Order, LAPSSET Corridor Development Authority Order, 2013 contained in the Kenya Gazette Supplement No. 51, Legal Notice No. 58 of March, 2013
<b>Our Vision</b>	
To be the premier institution in delivery of a vibrant LAPSSET Corridor with world class transformative and game changer infrastructure	
<b>Our mission</b>	
To provide effective and efficient leadership in the delivery of transformative and game changer infrastructure in the LAPSSET Corridor	
<b>Core values</b>	
<b>Integrity</b>	We are Committed to promoting transparency, accountability and professionalism in our work. Being Objective, Impartial and Unbiased in our Relations
<b>Sustainability and Public Participation</b>	We ensure socio-economic development is expediently achieved through adequate consultations and putting in place adequate mitigation measures.
<b>Equity and Equality</b>	We undertake our operations in an inclusive manner across all spheres of life irrespectively.
<b>Commitment and Teamwork</b>	We are dedicated to fully execute our operations while we instil a spirit of togetherness amongst the Board, staff and stakeholders to ensure Our Mandate is realized Collectively while recognizing individual efforts in complementation.
<b>Innovation</b>	We Respect individual capabilities and creativity demonstrated through skills, knowledge, ideas and initiatives and we mentor and nurture to grow both to the individual and the Authority. Creativity and innovativeness is encouraged in offering cost effective and appropriate interventions that feed into the overall operations.

**(c) Key Management**

The LAPSET Corridor Development Authority day-to-day management is under the following key organs:

- Board of Directors;
- Director General/CEO; and
- Management

**(d) Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2017 and who had direct fiduciary responsibility were:

#	Name	Designation
1.	<b>Silvester Kasuku</b>	Director General/CEO
2.	<b>James Achuka</b>	Ag. Human Resources & Administration Manager
3.	<b>John Musale</b>	Ag. Finance and Planning Manager
4.	<b>Morris Owili</b>	Ag. Accounts Manager
5.	<b>Benjamin Mutea</b>	Ag. Procurement Officer
6.	<b>Benson Thuita</b>	Corporate Affairs Officer
7.	<b>James Muigai</b>	Ag. Chief Internal Auditor

**(e) Fiduciary Oversight Arrangements**

The following fiduciary arrangements were in place during the 2016/17 Financial Year.

COMMITTEE	MEMBERSHIP	RESPONSIBILITIES
Finance & Administration Committee	<ul style="list-style-type: none"> <li>• Alice Kirenge – Chairperson</li> <li>• Dr. Francis Sang</li> <li>• Ali Dida</li> <li>• Principal Administrative Secretary/ Alternate – Cabinet Affairs Office in the Presidency</li> <li>• Principal Secretary / Alternate – The National Treasury</li> <li>• Principal Secretary / Alternate – State Department of Transport</li> <li>• Principal Secretary / Alternate – State Department of Tourism;</li> <li>• DG Vision 2030</li> <li>• Silvester Kasuku – Secretary</li> </ul>	<ul style="list-style-type: none"> <li>• Oversee the preparation of LCDAs budget.</li> <li>• Review the LCDA’s annual budget before submission and after approval by the Treasury;</li> <li>• Review quarterly Financial Monitoring Reports (FMR);</li> <li>• Review periodic operational budgets and financial statements;</li> <li>• Monitor the continuing efficacy of accounting and internal control;</li> <li>• Comply with the Government financial management regulations;</li> <li>• Monitor the performance of key finance and accounts staff against approved performance contracts;</li> </ul>

LAPSET Corridor Development Authority  
Financial Statements For the year ended 30<sup>th</sup> June 2017

COMMITTEE	MEMBERSHIP	RESPONSIBILITIES
		<ul style="list-style-type: none"> <li>• Oversee the annual procurement plans including the external funded projects;</li> <li>• Recruit and develop of staff of LCDA;</li> <li>• Monitor and appraise the performance of senior management, review human resource policies, determining the remuneration of senior management and other staff.</li> </ul>
Audit Committee	<ul style="list-style-type: none"> <li>• Fauziya B. Karama – Chairperson</li> <li>• Dr. Francis Sang</li> <li>• Mr. James Wachira</li> <li>• Principal Secretary / Alternate – Ministry of East African Affairs, Commerce &amp; Tourism</li> <li>• Principal Secretary / Alternate – Ministry of Energy &amp; Petroleum</li> <li>• Mr. James Muigai Ag. Chief Internal Auditor – Secretary</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor the implementation of the risk management policy framework;</li> <li>• Monitor and ensure timely implementation of recommendations of various fiduciary oversight responsibilities, including internal and external auditors, Government project monitoring agencies and external funded projects’ periodic review and supervision missions;</li> <li>• Oversee continuing efficacy of accounting and internal control standards, policies and practices;</li> <li>• Ensure compliance with legal covenants of Development Partners funding agreement on projects by them; and</li> <li>• Monitor performance of key internal audit staff against approved performance contracts.</li> </ul>

**(f) Entity Headquarters**

P.O Box 45008-00100  
Chester House, 2nd Floor,  
Koinange Street  
Nairobi, Kenya

**(g) Entity Contacts**

Telephone: (254)-02-20-2219098  
E-mail: [dg@lapsset.go.ke](mailto:dg@lapsset.go.ke)  
Website: [www.lapsset.go.ke](http://www.lapsset.go.ke)

**(h) Entity Bankers**

- |  |   |   |
|--|---|---|
| 1. Kenya Commercial Bank<br>Moi Avenue Branch<br>P.O. Box 30081-00100<br>Nairobi | 2. National Industrial Credit (NIC)<br>NIC House, Masaba Road<br>P.O Box 44599-00100<br>Nairobi | 3. CFC and Stanbic Bank<br>Lion Place, Waiyaki Way,<br>P.O Box 72833-00200<br>Nairobi |
|--|---|---|

**(i) Independent Auditors**

Auditor General  
Kenya National Audit Office  
Anniversary Towers, University Way  
P.O. Box 30084  
GOP 00100  
Nairobi, Kenya

**(j) Principal Legal Adviser**

The Attorney General  
State Law Office  
Harambee Avenue  
P.O. Box 40112  
City Square 00200  
Nairobi, Kenya

## II. THE BOARD OF DIRECTORS



***Amb. (Dr.) Francis Muthaura, EGH***

*The Board Chairman Joined the Board on 15<sup>th</sup> February, 2013, Amb., Dr. Muthaura holds of Honorary Doctorate Degree from Kenyatta University and the Kenya Methodist University. Awarded “Moran of Burning Spear” by the retired President Daniel Arap Moi and the “Elder of Golden Heart” by the retired President Mwai Kibaki. Former Permanent Secretary, Head of Public Service and Secretary to the Cabinet, Government of Kenya. Worked as Permanent Secretary in the Ministries of National Security; Environment, Water & Natural Resources; and Information, Transport and Communication. Founder Secretary General of the East African Community and Ambassador & Permanent Representative of Kenya to the UN in New York. Former Ambassador of Kenya to the European Union, the Kingdom of Belgium and Luxembourg. He holds a Bachelor of Arts Degree in Economics and Political Science; Post Graduate Diploma in International Relations from the University of Nairobi.*



***Silvester Kasuku, MBS, CMILT***

*Director General/CEO & Secretary to the Board. Mr. Kasuku is a former Lecturer at the University of Nairobi, School of the Built Environment.. An expert in infrastructure and services management policy, he was a Consultant/ Technical Advisor on the Kenya Roads Sector Institutional and Legal Reform of Government of Kenya between 2002 to 2008. Awarded the Moran of the Burning Spear (MBS) by H.E President Mwai Kibaki for the distinguished service he has rendered to the Kenyan nation. Mr. Kasuku is a member of various Professional Societies. He is a Chartered Member of the Institute of Logistics and Transport (CMILT), He is a Corporate Member of the Architectural Association of Kenya – Town Planners Chapter (MAAK-TP) and also a member of the Institute of Environmental Assessment, Kenya and a Member of the Kenya Institute of Planners.*



***Dr. Francis Sang***

*Board Member & Chairperson Land Management Committee. Dr. Francis Kipkemboi Sang Joined the Board on 2<sup>nd</sup> October, 2015 is a member of LAPSSET Corridor Development Authority Board. He sits at the Nandi County Public Service Board alongside lecturing in Moi and Catholic universities’ Departments of Education Management and Policy Studies and Research. He holds a Doctor of Philosophy Degree in Educational Management and Policy Studies, a Master of Education Degree in Educational Administration and Bachelor of Education Degree. He also*



***James Wachira, OGW***

*Board Member & Chairperson Strategy & Development Committee and Joined the Board on 15th February, 2013. He holds MBA, Major - Finance, Human Resource Management and Entrepreneurship from Marquette University and Certificate from University of Wisconsin-Madison. Mr. Wachira has over 20 year's local and international consulting experience, having worked in different capacities as a consultant including, team member, team leader as well as project director. He has worked in Kenya, South Africa, Rwanda, Ethiopia and the United States of America on medium term and long-term periods. He has also worked for short-term periods in Uganda, the Netherlands, Brussels, Somaliland and Tanzania. Mr. Wachira is a founder director and financial management adviser at PPD Consultants Limited. He is also the former Chairman, Audit & Risk Management Committee, Karatina University College. He is a Certified Public Accountant (CPA) and a member of the Institute of Certified Public Accountants of Kenya ICPA(K).*



***Fauziya Karama, OGW***

*Independent Board Member & Chairperson Audit Committee and Joined the Board on 15th February, 2013. Mrs. Karama holds BSc - Statistics degree from University of Nairobi and MBA, Major -Strategic Management and Human Resources Managemet from Univerity of Eastern Africa, Baraton. She is currently pursuing a Doctor of Philosophy degree in governance and Leadership from Jomo Kenyatta University of Agriculture and Technology. She has vast experience having worked with Telkom Kenya in different leadership positions including Network Planning & Design, Sales & Marketing, Process Management, Quality, Internal Audit and Call Centre Management. She is a registered member (2013) for Customer Operations Performance Center (COPC) on International Standard on Performance*



***Ali Dida Abkula***

*Board Member & Chairperson Performance Contracting and Stakeholder Engagement Committee. Mr Dida Joined the Board on 24<sup>th</sup> June, 2016. He holds B. Com and is expert in Business transformation and Restructuring and turnaround with over 20 years of experience in entrepreneurship, management, business planning, financial analysis, software engineering, operations, and decision analysis.*



***Alice Kirenge***

*Board Member & Chairperson Finance and Administration Committee Mrs. Kirenge joined the Board on 15th February, 2013. She has several years' experience in senior management roles in the corporate sector with over 28 years in the Insurance/Financial services sector. Formerly she was the Director of Operations and Head of Corporate Communications and PR at CFC Life Insurance Company. She has also worked in Health Care and Property Development sectors having held the positions of General Manager Nairobi Women's Hospital, and General Manager Marketing and Administration at Panda Development Company Limited – the developers of the five star Aberdare Hills Golf Resort. Currently she is the General Manager at The Monarch Insurance Company Limited. She is a Founder member of Starehe Girls Centre and currently sits on the board for Women's Enterprises International. Alice holds a B-com degree in Management and an MBA in strategic Marketing She is also a Fellow of the Life Management Institute (FLMI).*



***Mrs. Fatuma Hirsi Mohamed***

*The Principal Secretary, Ministry of Tourism holds MBA in strategy and marketing, a BA (Hons) in languages, a postgraduate diploma in Public Relations and a Certified Professional Mediator. She is currently pursuing a PhD in Communications Studies. She has previously worked with the United Nations Telecom, Media and Banking sector. She is an expert in the implementation of Marketing, PR, Business & Communication Strategies, Community and Stakeholder Relations & Development, and Corporate Social Responsibility.*



***Prof. Arch. Paul Maringa, CBS***

*Principal Secretary, State Department of Transport. Prof. Arch. Paul M. Mwangi is an Architect. He holds a PhD, Environmental Planning from Jomo Kenyatta University of Agriculture and Technology, M.A. Planning, Urban and Regional Planning and B. Arch Hons, Architecture from University of Nairobi. He has previously served as Senior Expert, Planning & Project Management in Workforce Development Authority, and as Ag., Vice Rector (Deputy Vice Chancellor) Academic Affairs and Kigali Institute of Science and Technology, KIST in Rwanda. He also served as Head of Department, Studio Master & Lecturer in Architecture, JKUAT.*



**Dr. Kamau Thugge**

*The Principal Secretary at the National Treasury Former head of Fiscal and Monetary Affairs Department, Economic Secretary and as Senior Economic Advisor at the Ministry of Finance He worked with the International Monetary Fund (IMF) as Economist, Senior Economist and Deputy Division Chief prior to joining the Ministry of Finance. He holds a Bachelor of Arts (Economics) degree from Colorado College, USA; Master's degree in Economics and a Doctor of Philosophy (PhD) degree in Economics also from John Hopkins University, USA.*



**Stephen K. Kirogo**

*The Principal Administrative Secretary and Assistant Secretary to the Cabinet in the Presidency and Cabinet Affairs Office, Executive Office of the President. He has served and worked in Government since 1984, as Assistant Secretary, District Officer, Senior Assistant Secretary, Under Secretary, Deputy Secretary, and Secretary/Chief Executive Officer of State Corporations Advisory Committee (SCAC). He has an Executive Masters in Business Administration (MBA) from Inoorero University, Post Graduate Certificate in Leading Business Development from Inoorero University, Post Graduate Diploma in Public Relations and Communications from Kenyatta University and a Bachelor of Arts Degree (Hons) – University of Nairobi.*



**Dr. Julius Muia, EBS**

*Director General, Kenya Vision 2030 Secretariat Dr. Muia has worked as an assistant Audit Manager at Price Waterhouse from 1986-1989 in Manchester, United Kingdom. Later worked at Lonrho Hotels as a group Financial Controller from 1990-1992; Finance director at the Safari Park Holdings Ltd from 1992-1995, Group Finance director at Unga Group Ltd from 1995-2001, Finance Director and chief Operating officer at Housing Finance Company of Kenya from 2001-2008. since April 2008 Julius served as the Secretary and CEO of the National Economic and Social Council, Office of the President. He also a trains on Leadership and teaches in Strathmore Business School.*



**Eng. Joseph Njoroge**

*The Principal Secretary, State Department of Energy, Ministry of Energy & Petroleum. He holds an MBA with a major in strategic management and a First Class Honours Degree in Electrical Engineering. He is a Registered Consulting Engineer, a Chartered Engineer, a Member of the Institution of Engineering & Technology (UK), a Fellow of the Institution Engineers of Kenya, a member of the Institute of Directors of Kenya and a trainer in Corporate Governance. He is the former Managing Director of Kenya Power & Lighting Company Limited, the country's transmitter, distributor and retailer of electricity, a position he held for six years.*

### III. MANAGEMENT TEAM



**Silvester Kasuku MBS, CMILT.**

**Director General/CEO**

Holds a Masters Arts Degree (MA) Planning

Have Over 11 years in the service.



**John Musale**

**Ag. Finance and Planning Manager.**

Holds a Masters Arts Degree in Economic Policy Analysis

Have Over 27 years in the service



**James Achuka**

**Ag. Human Resources and Administration Manager**

Holds BA (Sociology)

Have Over 11 years in service



**Morris Owili**

**Ag. Accounts Manager**

Holds Masters – Finance & MIS

Have Over 25 Years of service



**Benjamin Mutea**

**Ag. Procurement Officer**

Holds BA (Economics) and CIPS (UK)

Have Over 13 Years of Experience



**Benson Thuita**

**Corporate Affairs Officer**

Holds BA (Communications)

Have Over 4 years of Experience



**James Muigai**

**Ag. Chief Internal Auditor**

Holds MBA- Finance and CPA (K)

Have Over 12 years of experience

## IV. CHAIRMAN'S STATEMENT



---

*"This important task assigned by destiny as a country demands that we rededicate ourselves in spurring regional growth and integration and the LAPSSET Corridor Program is focal point to this realization."*

---

**Amb. Dr. Francis Muthaura, EGH**  
**Chairman – LCDA Board**

### INTRODUCTION

I am delighted to present the LAPSSET Corridor Development Authority Annual Report and the Financial Statements for the year ended 30<sup>th</sup> June, 2017. As an Authority, we are alive to the huge mandate bestowed on ourselves nationally and regionally and we are steadfast in delivering these on obligations.

The LAPSSET Corridor Program epitomizes our collective desire as a country to realize inclusive growth. It also presents a paradigm shift of concentrated development that diffuses from perceived resource rich areas and broadly aims to tap into hitherto under developed areas through infrastructure connectivity. This program upholds and cements the place and role of infrastructure in economic transformation and growth that has fundamentally been proved to be sound. This is well rooted in the long-term Kenya's Development Plan, Vision 2030 and is evidently the most far reaching in this endeavour. The program encompasses infrastructure components of highways, railway and oil pipelines covering Kenya, South Sudan and Ethiopia. Other components envisaged include Lamu Port, International Airports, Resort Cities and High Grand Falls Multi-Purpose Dam. The components traverse the vast parts of Northern and North Eastern Kenya and of greater significance confer the country a second Strategic Port and Corridor and affirm our position as the gateway to the region. This important task assigned by destiny as a country demands that we rededicate ourselves in spurring regional growth and integration and the LAPSSET Corridor Program is focal point to this realization.

### LAPSSET CORRIDOR PROGRAM PROGRESS

During the Financial Year under review, the Authority undertook core activities that continue to underscore the realization of the LAPSSET Corridor. Firstly, the Authority undertook surveying of the entire corridor from Lamu – Garissa – Isiolo – Moyale and Isiolo – Lokichar – Nakodok. Secondly, the Authority undertook the Strategic Environmental Assessment (SEA) study, this amplifies our shared objective that the LAPSSET Corridor Program ought and has to comply with environmental safeguards that bolster sustainability and improvement of livelihoods and

that is clearly understood. Based on these core activities, the LASSSET Corridor Project Components have a defined slate that will facilitate their faster implementation.

On the delivery of the various projects, we note that there has been considerable progress which is ably under the implementing Agencies. In particular, the commencement of the dredging works of Lamu Port and the construction of the 1<sup>st</sup> three berths is very significant. The LAPSSET highways have also progressed well with the delivery of Isiolo – Moyale (505kms) road completed within the year while other sections are at various stages. Worthy to note is that the Lamu Port initial off-take route from Lamu to Garsen commenced in February, 2017. It is evident that the progress made has set a strong platform for other projects to launch. The Port as an early anchor project has also heightened the interest of the private sector.

### **PRIORITY ACTIVITIES**

Building on the progress realized so far, we have prioritized several activities in the Financial Year 2017/18. The completion of the 1<sup>st</sup> berth is foremost and will give strong impetus to the other components. We also plan to undertake a detailed Planning and Investment Framework for Lamu Port City as well as a Preliminary Transport Master Plan for the Lamu Port City. These are critical overarching activities that will be replicated along the corridor to ensure that we take cognizance of the future development dictates.

### **PUBLIC PARTICIPATION**

The Board, in the year under review continued to engage the various stakeholders with the view of ensuring the projects implementation is fully sequenced and participatory. Given the scope, complexity and multiplicity of the players, it is increasingly evident that our role in the delivery of the LAPSSET Corridor Program is significantly valid. We therefore look forward to engaging our stakeholders more deeply to bring out all the salient program concerns and work together to resolve any issues that may derail the realization while expediting more effort to reach consensus on among other things land acquisition and community participation in the projects execution.

### **CORPORATE SOCIAL RESPONSIBILITY**

As a country, we continue to nurture the progressive believe in building the capacity of our people. Towards ensuring that communities are closely involved in the implementation of the Program. The Authority through the Presidential Youths Scholarship Programme for Lamu Youths continues to support students from Lamu in undertaking various courses. Importantly, a number of these students have since completed their studies and are meaningfully engaged in national building.

### **CHANGES TO THE BOARD**

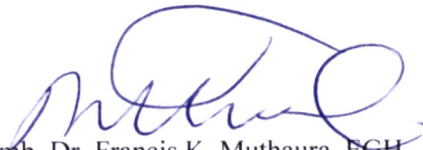
There were a number of changes to the membership of the Board during the Year under review. Mr. Ali Dida Abkula who served till 10<sup>th</sup> May, 2017 did leave the Board to pursue other endeavours. We are glad that he was instrumental to our stakeholders engagements and his insights continue to guide stakeholders interactions, for his dedicated service, we do sincerely wish him success.

## APPRECIATION

As Board of Directors, we value the dedication of the LCDA management and staff for their contribution to the next development phase of our country. I therefore extend my thanks to them. The achievements we witness today are due to concerted effort by multiple players, the National and County Governments, Ministries, Departments, and different Agencies mandated to undertake the projects implementation. All have been committed and dedicated to this national aspiration, and for that we very grateful. We have gained momentum and will together surpass our limits. To the many stakeholders who have partnered and been part of this shared responsibility, we take pride in you and invite you to share these achievements as your own. Lastly, to my fellow Board Members, you have continued to provide effective leadership, been supportive to management and committed to a genuine course designed to change and transform our great country, am very grateful for the steadfast support and look forward to a more prominent Financial Year 2017/2018.

Once more on behalf of the Board of Directors, it gives me much gratitude to present the Authority's Annual Report for the Financial Year 2016/17.

God bless you all.



Amb. Dr. Francis K. Muthaura, EGH  
**Chairman, LCDA Board of Directors**

## V. REPORT OF THE CHIEF EXECUTIVE OFFICER



---

*“the transformation belief must not wither nor fade, we owe this to our future generations and must purpose and dedicate ourselves to their betterment”*

---

**Mr. Silvester Kasuku, MBS, CMILT**  
**Director General/CEO**

### INTRODUCTION

The Lamu Port South- Sudan, Ethiopia Transport (LAPSSET) Corridor Program is a regional multi modal infrastructure program integrating roads, railway and pipelines components in Kenya, South Sudan and Ethiopia. The program is the single largest project of its nature in Eastern Africa and is intended to provide seamless connectivity, enhance trade and logistics within the region by providing an alternative and strategic corridor to serve our landlocked neighbouring countries. The scope of the infrastructure components includes:-

- i. A 32 Berth Port in Lamu intended to unlock logistics and trade and create a second gateway in Kenya;
- ii. Interregional Standard Gauge Railway lines from Lamu – Isiolo - Nakodok and Juba (South Sudan), Isiolo - Moyale and to Addis Ababa (Ethiopia), and Nairobi to Isiolo;
- iii. Interregional Highways from Lamu – Isiolo – Lokichar - Nakodok and Juba (South Sudan), Isiolo to Moyale and to Addis Ababa (Ethiopia);
- iv. Crude Oil Pipeline from Juba (South Sudan) - Nakodok – Lokichar - Isiolo – Lamu; and
- v. Product Oil Pipeline from Lamu – Isiolo - Moyale (Kenya) and Moyale - Addis Ababa (Ethiopia).

At the country level, the Program is one of the flagship Vision 2030 projects intended to spur economic development by creating new opportunities while unlocking the latent economic potential in the larger hinterland of Northern and North Eastern and North Western parts of Kenya. Among the projects components planned along the corridor in Kenya include:-

- i. International Airports at Lamu, Isiolo, and Turkana;
- ii. Resort Cities at Lamu, Isiolo and Turkana; and
- iii. High Grand Falls Multipurpose Dam;

**LAPSSET Corridor Development Authority  
Financial Statements For the year ended 30<sup>th</sup> June 2017**

The Financial Year 2016/17 marks our fourth successful year of steering the LAPSSET Corridor Program. As the government Agency mandated to Plan, Coordinate and Sequence this Program, continue to re-engineer the processes that hasten the implementation and delivery in the most strategic possible way.

### **PROGRAM MILESTONES**

The realization of the Corridor is dependent many factors among them, commitment of adequate financial resources, timely land acquisition and prior and proper planning. During the year under review, the Authority initiated the land acquisition process culminating to allocation of 28, 0000 Hectares. The Authority further undertook the Surveying of the entire corridor from Lamu – Garissa – Isiolo- Moyale and Isiolo – Lodwar – Nakodok and is in the process of securing the land through gazettment. By securing the land for the infrastructure components, we underscore the relevance of integrating the infrastructure components and avoiding the pitfalls of piecemeal and fragmented acquisition. Indeed, the corridor will be available to host any future public infrastructure that may be desired as well as accommodate future expansions that may arise.

Another core activity that the Authority undertook during the Financial Year is the Strategic Environmental Assessment (SEA). The SEA study is a primary study that aims to ensure environmental safeguards are clearly spelt out at the early conceptual stages of the projects. Given the scope and the integrated nature of the projects, the study has identified numerous issues and remedial measures that will ensure that environmental concerns are fully ingrained in the projects designs.

Further, to ensure that the Corridor and emerging cities are well planned, the Authority with the assistance of the United Kingdom undertook a Planning and Investment Framework for Lamu. The process identified critical industries that are to be phased over time to create business for the Lamu Port through identification of the Special Economic Zone area, light to heavy industries section and logistics area. The Authority will embark on the next course of this planning for the entire Corridor and also other cities envisaged along the corridor. The plan has also been incorporated in the Lamu County Spatial Plan following the close working collaboration with the County Government.

### **PROJECTS STATUS**

During the year under review, the construction of the 1<sup>st</sup> three berths commenced in earnest, heralding a new commitment for the LAPSSET Corridor Program. Notably, the 1<sup>st</sup> Berth will be delivered by July, 2018 and the other two by December, 2020. This is evidently a major milestone for the entire program.

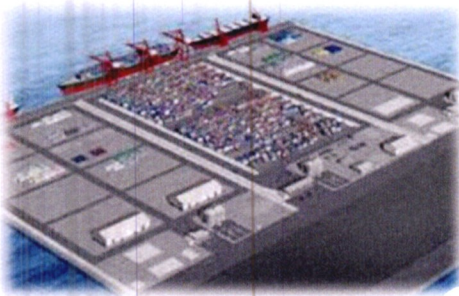


In respect to the highways, the 505 kms Isiolo – Marsabit – Moyale road is now completed. This connects with the Moyale – Hawassa – Addis Ababa road completing 1,300 kilometres

**LAPSSET Corridor Development Authority**  
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tarmacked highway between the two countries. The section between Lokichar and Nakodok was taken over by contractors in the same period following the issuance of the No Objection by the World Bank. The 338 kilometres section expected to be delivered in 36 months and will provide an efficient and shorter route to Juba in South Sudan compared to the Northern Corridor via Kampala. The road section between Lamu – Garissa – Isiolo also received attention with a consortium led by Development Bank of Southern Africa expressing interest to develop it and receiving government nod to be considered under the Privately Initiated Investment Proposals. In respect to the section between Isiolo and Lokichar, the route definition and selection commenced and is expected to be completed in the 2017/18 Financial Year. To ensure the initial off-take route is prepared, the government awarded the Lamu – Garsen road section and the implementation is ongoing.

Below is a snapshot of the status of projects for the various components.



**Port:**

- Construction of the 1<sup>st</sup> three berths of Lamu Port ongoing;



**Roads:**

- Isiolo – Moyale completed
- Lokichar – Nakodok construction commenced;
- Lamu – Isiolo financial negotiations commenced;
- Isiolo – Nginyang Feasibility and Detailed designs ongoing;
- Lamu – Garsen Road commenced



**Railway:**

- Preliminary Design and Feasibility Study completed;
- Process for the Integration of standards and designs between Kenya and Ethiopia started



**Crude Oil Pipeline:**

- The Front End Engineering Design study ongoing

## **STAKEHOLDERS CONSULTATIONS**

Stakeholders engagement is a critical ingredient in ownership and sustainability of the Programs as well as a constitutional dictate intend to integrate public views for greater projects acceptability. These consultations facilitate collation of views which feed into the projects design and help create synergies among projects implementers. During the year under review, the Authority held various stakeholders consultations on the location of the Isiolo Resort City, the Lamu Planning and Investment Framework, the Strategic Environmental Assessment and the construction of the 1<sup>st</sup> three berths. These consultations continue to guide the policy and projects implementation decisions.

## **CAPACITY BUILDING AND SKILLS DEVELOPMENT**

The Authority has continued to underscore the need for skills development and capacity building especially among the youths along the Corridor. Under the Presidential Scholarship Program, the Authority spent Kshs 51,041,417.00 to support 265 continuing students out of the 376 enrolled since inception. Further to this, the Authority through the various stakeholder's forums emphasized on the need for the County Governments and other stakeholders to initiate similar program to ensure that the youths are fully equipped with requisite skills in readiness for the emerging job opportunities.

## **FINANCIAL PERFORMANCE**

During the year under review, the Authority was allocated Kshs 248 Million. by the National Treasury. These funds enabled the Authority to undertake Surveying of the Corridor and also undertake Strategic Environmental Assessment. Beside the allocation by the National Treasury, the Authority received a grant of Kshs 28 million from the United Kingdom Government through the Propensity Fund to undertake the Lamu Planning and Investment Framework. The African Development Bank also awarded the Authority a grant of USD 1,9 million for the Lamu Port Transactional Advisory Services. This gesture by development partners affirms the significance of the LAPSSET Corridor Program in the region.

## **OPERATIONAL CHALLENGES**

The mandate bestowed on the Authority has been hampered by several operational challenges. Although the Authority successfully undertook an Institutional Establishment Assessment, the human capacity is a prominent challenge following the employment freezing directive by the National Treasury. There are also fundamental overarching activities that needed to be carried out urgently, among them land acquisition, the Master Planning of the Corridor, the Master Planning of the Resort Cities and Transactional Advisory Consultancy services, these were not carried out due to financial constrains following reduction of the budgetary allocation to the Authority.

The Authority is also tasked with overseeing the Presidential Scholarship Programme that targets to retool 1000 youths in Lamu and enable them cease emerging opportunities. The Authority faced financial constrain in effecting this scholarship in the year under review and this needs to be attended to urgently to ensure the programme is a success.

## APPRECIATION

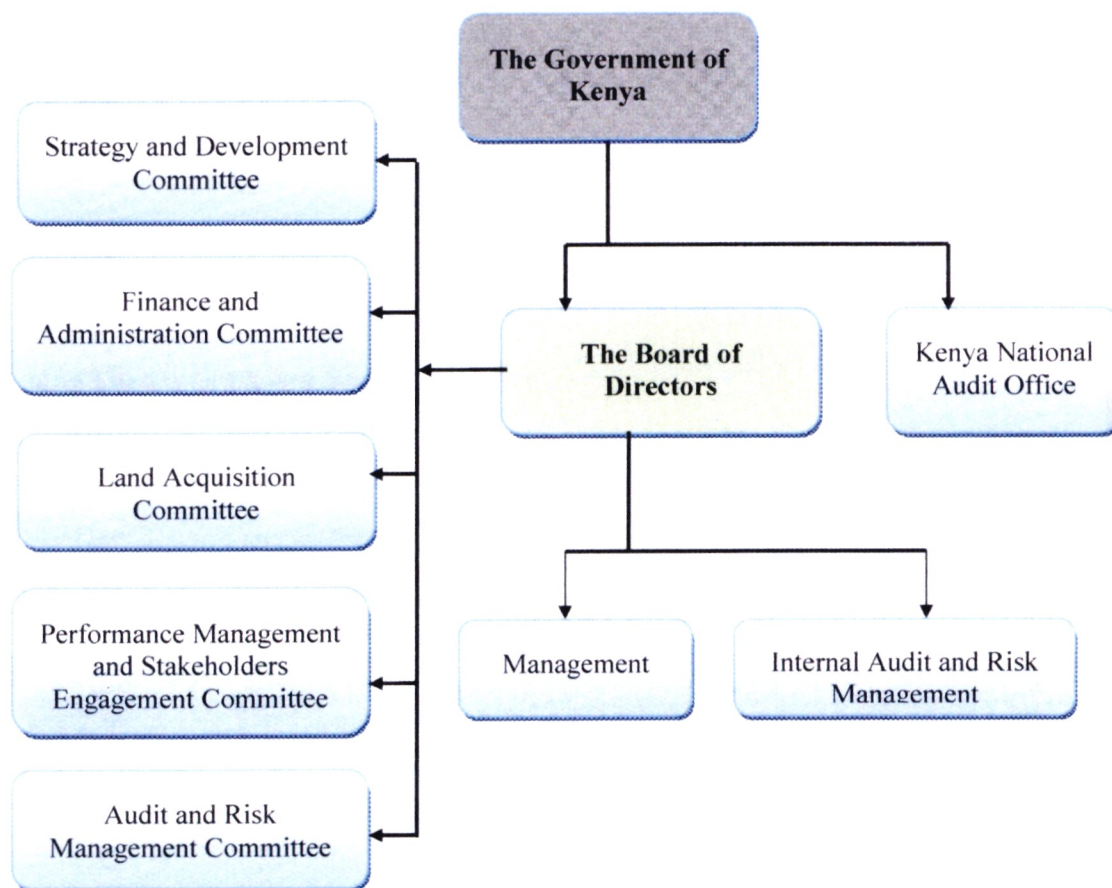
The success we witness today is a product of dedication and commitment from multiplicity of stakeholders. I therefore on my own behalf and management thank our stakeholders, clients, the service providers, the National and County Governments, the various Ministries, Departments and Agencies implementing the LAPSSET Corridor Program and the entire staff fraternity for steadfast and unwavering support during the year. To the regional and international partners and in particular to the United Kingdom and the African Development Bank, we are very grateful for the financial support extended to undertake the preliminary planning activities. The progress made so far is impressive and the future achievements can only be amplified. The transformation belief must not wither nor fade, we owe this to our future generations and must purpose and dedicate ourselves to their betterment. I therefore look forward to your continued support as we strive to transform Kenya and the region and create a destiny for generations to come.



**Silvester Kasuku, MBS, CMILT**  
**DIRECTOR GENERAL/CEO**

## VI. CORPORATE GOVERNANCE STATEMENT

The Board is committed to ensuring that the Authority is professional, transparent, and accountable and further upholds high levels of integrity. The principles and standards adhered to by the Board conforms to guidelines and code of governance issued by State Corporations Advisory Committee and other governance institutions. The LAPSSET Corridor Development Authority governance structure is summarized in the figure below.



### THE BOARD AND MEMBERS PERFORMANCE

The Board consists of fourteen directors including the Chairman and the Secretary out of whom five are independent (non-executive) and two are co-opted. The Board composition is drawn from the implementing ministries and independent directors with a good mix of skills, experience and proficiencies in various fields. The Director General/CEO is the Secretary to the Board.

The Directors are independent of Management and their role is to provide leadership and stewardship for effective execution of the Authority's objectives and strategies. The Directors oversee the operations of the management through constructive advice and consistently engaging the management on agreed parameters within the strategic framework set by the Board. The Director General/CEO is responsible to the Board and takes responsibility for the effective and efficient running of the Authority's on day -to -day basis.

### MEMBERSHIP OF THE BOARD COMMITTEE

During the Financial Year under review, the following Board Committees were operational and their compositing is presented in the matrix below:-

Name	Finance & Administration	Strategy & Development	Performance Contracting & Stakeholders Engagement	Lands Acquisition	Audit & Risk Management
Alice Kirenge	X	X		X	
Fauziya B. Karama		X	X	X	X
James Wachira		X	X		X
Dr. Francis Sang	X	X		X	X
Ali Dida	X	X	X	X	
PS The National Treasury	X	X			
PS State Department of Transport	X	X	X		
PS State Department of Energy					X
PS State Department of Tourism	X	X			X
Principal Administrative Secretary Office of the Presidency	X		X		
PS State Department of Lands				X	
DG Vision 2030	X	X	X	X	

The Director General/CEO is the Secretary to the Board Committees except the Audit and Risk Management where the Chief Internal Auditor is the Secretary.

### BOARD MEETINGS

The Board and Committees meet regularly in accordance with business requirements. All the Directors participate in discussing matters tabled before the Board and Committees on Strategy, Operations, and Financial position, Risk Management, Performance and Policies. Committee's deliberations are presented to the Board for review and adoption. During the Financial Year, the following matrix presents the Board meetings that took place and the attendance.

No.	Membership	13 <sup>th</sup> July, 2016	16 <sup>th</sup> Nov, 2016	9 <sup>th</sup> Dec, 2016	28 <sup>th</sup> Feb, 2017
1.	Amb. Dr. Francis Muthaura	X	X	X	X
2.	Silvester Kasuku	X	X	X	X
3.	Alice Kirenge	X	X	X	X
4.	Fauziya B. Karama	X	X	X	X
5.	James Wachira	X	X	X	X
6.	Dr. Francis Sang	X	X	X	X
7.	Ali Dida	X	X	X	X
8.	PS The National Treasury		X		X

**LAPSSET Corridor Development Authority**  
**Financial Statements For the year ended 30<sup>th</sup> June 2017**

9.	PS State Department of Transport	X	X	X	X
10.	PS State Department of Energy		X		X
11.	PS State Department of Tourism	X	X	X	X
12.	Principal Administrative Secretary Office of the Presidency	X			X
13.	PS State Department of Lands		X	X	X
14.	DG Vision 2030	X	X		

**ROLES AND FUNCTIONS OF THE BOARD**

The Board's principal duty is to provide leadership in the delivery of the LAPSSET Corridor Development Program. Specific functions of the Board are as spelt out in the Establishing Legal Notice Section 9 (a-g). The Terms of Reference for the Board committees are developed and reviewed over time.

**ROLE AND FUNCTIONS OF BOARD COMMITTEE**

The Board Committees undertakes functions and roles emanating from donated responsibilities and broadly aimed at enhancing the functions and roles of the Board. Specifically, the functions and roles are stipulated and elaborated in Terms of Reference for each committee as follows:

#	COMMITTEE	ROLES AND FUNCTIONS
1.	<b>Strategy and Development Committee</b>	<ul style="list-style-type: none"> <li>• Provide Direction and Guidance in the implementation of the LAPSSET Corridor Program;</li> <li>• Provide Direction and Guidance in the development and implementation of the Strategic Plan of the Authority;</li> <li>• Provide Direction and Guidance in the development and implementation Board Charter;</li> <li>• Review of technical and policy documents including cabinet papers, board papers, Authority manuals, Memorandums of Understanding (MoUs) addressing issues of technical nature;</li> <li>• To review and recommend for Board Approval the LCDA's Annual Work Plan to ensure that it is in line with the Strategic Plan and the Performance Contract;</li> <li>• Reviewing and approve the LCDA's Resource Mobilization Strategy;</li> <li>• Review the Quarterly Reports on the Implementation of Strategic Plan activities be submitted to the Cabinet Secretary, Ministry of Transport, Infrastructure, Housing and Urban Development ;</li> <li>• Review collaboration activities and partnerships with other agents;</li> <li>• Undertake annual progress review of the Strategic Plan;</li> </ul>
2.	<b>Finance and administration committee</b>	<ul style="list-style-type: none"> <li>• Oversee the preparation of LCDAs budget.</li> <li>• Review the LCDA's annual budget before submission and after approval by the Treasury;</li> <li>• Review quarterly Financial Monitoring Reports (FMR);</li> <li>• Review periodic operational budgets and financial statements;</li> <li>• Monitor the continuing efficacy of accounting and internal control;</li> <li>• Comply with the Government financial management regulations;</li> </ul>

LAPSET Corridor Development Authority  
Financial Statements For the year ended 30<sup>th</sup> June 2017

#	COMMITTEE	ROLES AND FUNCTIONS
		<ul style="list-style-type: none"> <li>• Monitor the performance of key finance and accounts staff against approved performance contracts;</li> <li>• Oversee the annual procurement plans including the external funded projects;</li> <li>• Recruit and develop of staff of LCDA;</li> <li>• Monitor and appraise the performance of senior management, review human resource policies, determining the remuneration of senior management and other staff.</li> </ul>
3.	<p><b>Performance Contracting and Stakeholders Engagement Committee</b></p>	<ul style="list-style-type: none"> <li>• Oversee the preparation of LCDAs Performance Contract.</li> <li>• Identify for inclusion in the Performance Contract targets for the financial year.</li> <li>• Participate in vetting of the Performance Contract.</li> <li>• Review quarterly and annual reports of the Performance Contract before submission to the Performance Contracting Division of the Ministry of Devolution and Planning.</li> <li>• Participate in the evaluation of the Performance Contract.</li> </ul>
4.	<p><b>Land Acquisition Committee</b></p>	<ul style="list-style-type: none"> <li>• Oversee the survey and mapping process for all the land falling within the LAPSET Corridor</li> <li>• Oversee the Strategic Environmental Assessment process for the Corridor</li> <li>• Review and guide measures put in place to sensitize the public on Land Acquisition for the Corridor and the compensation process.</li> <li>• Develop a policy framework for compulsory land acquisition through engaging counties and other stakeholders.</li> <li>• Ensure that any land disputes arising from the acquisition of land along the Corridor are effectively addressed.</li> <li>• Guide the process of allocating land to the Authority</li> <li>• Oversee the allocation of land to various users and/or investing firms ensuring that leases are issued to legitimate beneficiaries, and that they are only issued for the required time frame.</li> <li>• Review the Administration of ground rent and demand notices</li> </ul>
5.	<p><b>Audit and risk management committee</b></p>	<ul style="list-style-type: none"> <li>• Monitor the implementation of the risk management policy framework;</li> <li>• Monitor and ensure timely implementation of recommendations of various fiduciary oversight responsibilities, including internal and external auditors, Government project monitoring agencies and external funded projects' periodic review and supervision missions;</li> <li>• Oversee continuing efficacy of accounting and internal control standards, policies and practices;</li> <li>• Ensure compliance with legal covenants of Development Partners funding agreement on projects by them; and</li> <li>• Monitor performance of key internal audit staff against approved performance contracts.</li> </ul>

## **INDUCTION AND TRAINING**

Five Board members were induction in the Financial Year under review.

## **PROCESS OF APPOINTMENT AND REMOVAL OF DIRECTORS**

The appointment of the Chairman and the Non-Executive Board Members is done by the President pursuant to the provision of the Authority's establishing Legal Notice, 5(1)(a and g(i-v)). The removal of the Directors is provided for under Section 11(1)(b and c(i-v)).

## **APPOINTMENTS AND RESIGNATIONS**

During the year under review, four Directors were appointed as below:

- i) Fauziya B. Karama
- ii) James G. Wachira
- iii) Alice M. Kirenge
- iv) Ali D. Abakula

Except Mr. Ali D. Abakula, who was newly appointed, the others had their mandate renewed pursuant to Legal Notice, Part II, Section 3 (6).

Further, Mr. Ali Dida Abakula resigned as a member of the Board of Directors of the Authority in the year under review.

## **BOARD REMUNERATIONS**

The Directors are paid sitting allowances for every meeting attended. In addition, the Chairman is paid a monthly Honoraria.

## **CONFLICT OF INTEREST**

Directors have a statutory duty to disclose any situations which may give rise to conflict interest with the Authority. The Directors have signed a Code of Governance committing to disclose any conflict of interest which may arise.

## VII. MANAGEMENT DISCUSSION AND ANALYSIS

### THE AUTHORITY'S OPERATIONAL AND FINANCIAL PERFORMANCE

#### SECTION A

In executing its mandate of planning, coordination and sequencing of the LAPSSET Corridor Program, LCDA commenced the process of acquiring land for the inner corridor of 500 Meters from Lamu – Isiolo – Moyale; and Isiolo – Nakodok for developing the infrastructure components. This process culminated to acquisition of 28,000 HA of land for the Lamu Port and associated investment components. The surveying of the entire corridor and the Strategic Environmental Assessment study also was undertaken.

The Authority also undertook a Lamu Planning and Investment Framework for Lamu Country and commenced the process for the hiring of the Transactional Advisory Services for Lamu Port.

Monitoring Implementation of Project Components of the ongoing projects was undertaken in the year under review and this guided policy decisions on the projects implementation.

#### Presidential Youth Scholarships program

A critical component of the Corporate Social Responsibility of the LAPSSET program is the provision of scholarships to needy and deserving students which was initiated through a presidential directive. The project to date has supported over 376 students to undertake technical skills and professional courses. The programme experienced financial distress and hence there was no intake during the period under review.

#### SECTION B

##### Authority's compliance with statutory requirements

Authority embraces good governance and had structured its operations guided by Public Procurement and Disposals Act, Public Finance Management Act and circulars. Based on that, the Authority does not envisage encountering contingent liability

#### SECTION C

### KEY PROJECTS AND INVESTMENT DECISIONS IMPLEMENTED OR ONGOING

The Authority in the year under review undertook three key projects:

- Strategic Environmental Assessment
- Lamu Planning and Investment Framework
- Surveying of the Corridor

Some of the key projects LCDA is planning to undertake are as follows:

#### Procurement of Transaction Advisory Services

LCDA with the support of the African Development Bank (AfDB) is in the process of procuring the services of Transaction Advisors to help in packaging the Lamu Port for private sector financing through Public Private Partnership (PPP).

### **Lamu Transport Master Planning**

With the support of the European Union, the Authority is undertaking a preliminary Transport Master Plan for Lamu

The Authority also intends to engage the LAPSSET Corridor Counties to ensure that the County Spatial Plans and the County Integrated Development Plans consider the LAPSSET Project Components given their overall significance.

## **SECTION D**

### **Major risks facing the Authority**

#### **Financial risks**

The Authority's activities exposed to variety of financial risks such as credit and liquidity risks. The Authority regularly reviews its management policies and systems to reflect changes in markets and emerging best practices. Risk management is carried out by the management under the direct supervision of the board of the directors. The board provides policies for overall risk management as well as policies covering specific areas such as credit risk and liquidity risk.

#### **Credit risks**

Credit risk refers to the risk that counterparty will default on its contractual obligation resulting in financial loss to the Authority. Credit risk arises from bank balances, receivables and amount due from related parties.

#### **Liquidity Risk**

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations when they fall due. The Authority's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or at the risk of damaging the Authority reputation. The Authority ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. The Authority reinforce this practice by adhering to approved budget and committing/ reserving funds raising purchase/ service orders.

The Authority is banking with reputable financial institutions with sound financial base that will always effect payments from Authority's balances on authorised instructions.

All liquidity policies and procedures are subject to review and approval by the board.

## **SECTION E**

### **Material arrears in statutory /financial obligations**

Authority limits its procurement of goods and services in accordance with its approved budget; hence it has no obligations in terms of pending bills. Authority did procure services of a firm to handle staff pension scheme and all staff pension dues had been channelled to the firm and subsequent remittances are being made in time.

**SECTION F**

**The Authority's financial probity and serious governance issues**

So far the Authority has not encountered a situation which may give way to financial improbity or interfere with good governance.

## VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT REPORT

The Presidential Youth Scholarship Program is a Corporate Social Responsibilities (CSR) which the government initiated for retooling the Lamu youths and instilling critical skills in readiness for the emerging opportunities that will be availed by Lamu Port and industrial establishment earmarked for Lamu County.



The Scholarship programme was launched in the year 2014 and is a five year programme which provides comprehensive scholarship for students to pursue degrees, diplomas and certificates in courses mainly targeting Port operations. This will prepare the youths for absorption in emerging opportunities

along the corridor. The programme has sponsored 376 students, seventy four are pursuing degrees, 206 diplomas and 96 are undertaking certificate courses. The programme female sponsorship is 38 percent and this is intended to ensure women are equally empowered to seize the emerging opportunities in a competitive manner. So far, 109 students have successfully completed their courses.



Given the significance of this component in capacity building of the youths along the corridor, the scholarship programme needs to be scaled up to cover the other LAPSSET Corridor Counties. Further, the government commitment needs to be steadied and more resources availed while at the same time bring on board other stakeholders to bolster the programme success.

**PART II**  
**FINANCIAL STATEMENTS**  
**2016/2017**

**LAPSSET Corridor Development Authority**  
**Financial Statements For the year ended 30<sup>th</sup> June 2017**

## IX. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30<sup>th</sup>, 2017 which show the state of the Authority's affairs as at that date.

### Principal Activities

The principal activity of the LAPSSET Corridor Development Authority Plan, Coordinate and Sequence the implementation of the LAPSSET Corridor Program Components. These project components are the Lamu Port; highways from Lamu to Isiolo to Moyale and Isiolo to Lokichar to Nakadok; Standard Gauge Railway from Lamu to Isiolo to Moyale and Isiolo to Lokichar to Nakadok; International Airports at Lamu, Isiolo and Turkana; crude oil pipeline and refined oil pipeline and oil refinery, Resort Cities in Lamu, Isiolo and Turkana as well as other supporting infrastructure such as power supply, water supply and fiber optic cable along the Corridor.

### Results

The results of the Authority for the year ended June 30, 2017 are set out on page 1-5

### Directors

The members of the Board of Directors who served during the year are shown in Section II

### Auditors

The Auditor General is responsible for the statutory audit of the Authority in accordance with the Section 35 of the Public Audit Act, 2015.

By Order of the Board



Secretary to the Board

Nairobi

Date: 26/9/2017

## X. STATEMENT OF BOARD OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 15 of the State Corporations Act, require the Directors to prepare financial statements in respect of that Authority, which give a true and fair view of the state of affairs of the Authority at the end of the financial year and the operating results of the Authority for that year. The Directors are also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy the financial position of the Authority. The Directors are also responsible for safeguarding the assets of the Authority.

The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on June 30<sup>th</sup>, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Authority; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of Authority's transactions during the financial year ended June 30<sup>th</sup>, 2016, and of the Authority's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Authority will not remain a going concern for at least the next twelve months from the date of this statement.

### Approval of the financial statements

The Authority's financial statements were approved by the Board on 30<sup>th</sup> Nov 2017 and signed on its behalf by:



\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON LAPSSSET CORRIDOR DEVELOPMENT AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017

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#### REPORT ON THE FINANCIAL STATEMENTS

##### **Opinion**

I have audited the accompanying financial statements of LAPSSSET Corridor Development Authority set out on pages 1 to 29, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts 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, the financial statements present fairly, in all material respects, the financial position of LAPSSSET Corridor Development Authority as at June 30, 2017, 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 Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, 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 Opinion**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of LAPSSSET Corridor Development Authority 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 is sufficient and appropriate to provide a basis for my 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.

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*Report of the Auditor-General on the Financial Statements of Lapsset Corridor Development Authority for the year ended 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 Public Sector Accounting Standards (Accrual Basis) 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 LAPSSET Corridor Development Authority ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to 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 LAPSSET Corridor Development Authority 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 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.

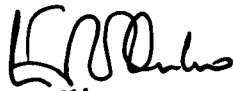
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 LAPSSET Corridor Development Authority 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 LAPSSET Corridor Development Authority ability 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 LAPSSET Corridor Development Authority to cease sustaining 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 LAPSSET Corridor Development 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 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**

**28 May 2018**

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*Report of the Auditor-General on the Financial Statements of Lapsset Corridor Development Authority for the year ended 30 June 2017*

## XII. STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30<sup>th</sup> June 2017

		FY 2016/2017 kshs	FY 2015/2016 Kshs
<b>Revenue from non-exchange transactions</b>	<b>Notes</b>		
Transfers from other governments	1	248,310,000	293,000,000
Donor receipts (Direct payments)	1	22,571,171	NIL
Amortized capital grant	2	9,312,694	9,312,694
Other income	2	394,148	37,204
<b>Total revenue</b>		<b>280,588,013</b>	<b>302,349,898</b>
<b>Expenses</b>			
Employee costs	3	88,116,389	79,747,620
Board expenses	4	13,965,788	7,835,518
Depreciation expenses	5	11,062,149	10,545,474
Grants and subsidies	6	50,471,720	57,425,750
Operating expenses	7	205,115,785	227,764,523
<b>Total expenses</b>		<b>368,731,831</b>	<b>383,318,885</b>
<b>Surplus/(Deficit) for the period</b>		<b>(88,143,817)</b>	<b>(80,968,988)</b>

The notes set out from pages 6 to 21 form an integral part of the Financial Statements

### XIII. STATEMENT OF FINANCIAL POSITION

As at 30<sup>th</sup> June 2017

		2016-2017	2015-2016
		Kshs	Kshs
<b>Assets</b>	<b>Notes</b>		
<b>Current assets</b>			
Cash and cash equivalents	8	23,827,331	126,416,563
Receivables from exchange transactions	9	4,240,377	11,403,926
<b>Total current assets</b>		<b>28,067,708</b>	<b>137,820,488</b>
<b>Non-current assets</b>			
Property, plant and equipment	13	31,095,105	27,633,193
<b>Total assets</b>		<b><u>59,162,814</u></b>	<b><u>165,453,682</u></b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Provisions and payables	10	6,559,291	17,440,848
Employee benefit obligation	11	5,464,678	3,417,478
<b>Total liabilities</b>		<b>12,023,969</b>	<b>20,858,326</b>
<b>Net assets</b>		<b>47,138,845</b>	<b>144,595,356</b>
Capital grants		15,403,631	24,716,324
Accumulated surplus		31,735,214	119,879,031
<b>Total net assets and liabilities</b>		<b><u>59,162,814</u></b>	<b><u>165,453,682</u></b>

The Financial Statements set out from pages 1 to 5 were signed on behalf of the Board of Directors by:

Director General/C.E.O

Head of Finance

Chairman of the Board

Date.....

Date.....

Date.....

7/2/2018

7/2/2018

7/2/2018

#### XIV. STATEMENT OF CHANGES IN NET ASSETS

##### For the year ended 30<sup>th</sup> June 2016

	Revenue Reserve 2015/2016	Capital Grants ** 2015/2016	Total 2015/2016
	Kshs	Kshs	Kshs
Reserves as at 1st July 2015	200,848,019	34,029,018	234,877,037
Amortized during the year	-	(9,312,694)	(9,312,694)
Surplus for the year	(80,968,988)	-	(80,968,988)
<b>30th June 2016</b>	<b>119,879,031</b>	<b>24,716,324</b>	<b>144,595,356</b>

##### For the year ended 30<sup>th</sup> June 2017

	Revenue Reserve 2016/2017	Capital Grants** 2016/2017	Total 2016/2017
	Kshs	Kshs	Kshs
Reserves as at 1st July 2016	119,879,031	24,716,324	144,595,356
Amortized during the year	-	(9,312,694)	(9,312,694)
Surplus for the year	(88,143,817)	-	(88,143,817)
<b>30th June 2017</b>	<b>31,735,214</b>	<b>15,403,631</b>	<b>47,138,845</b>

#### Note

**NOTE:** Capital grants relate to donated assets by Presidency (the Parent Ministry by then) and various Authorities at the time of establishment of the Authority which was amortized during the year under review.

## XV. STATEMENT OF CASH FLOWS

		2016/2017 Kshs	2015/2016 Kshs Kshs
<b>Cash Flow from Operating Activities</b>	<b>Note</b>		
<b>Receipts</b>			
<b>Transfers from other governments</b>	1	248,310,000	293,000,000
<b>Donor (Direct payments)</b>	1	22,571,171	NIL
<b>Other revenue</b>	2	394,148	37,204
		<b>271,275,319</b>	<b>293,037,204</b>
<b>Payments</b>			
<b>Employee costs</b>	3	92,575,213	81,673,607
<b>Board expenses</b>	4	13,965,788	7,835,518
<b>Grants and subsidies</b>	6	55,158,470	43,977,852
<b>General expenses/operating</b>	7	197,641,019	227,927,445
		<b>359,340,490</b>	<b>361,414,422</b>
<b>Net Cash from Operating Activities</b>	12	<b>(88,065,171)</b>	<b>(68,377,218)</b>
<b>Purchase of Fixed assets</b>	13	(14,524,061)	(757,200)
<b>Net cash used in investing activities</b>		<b>(14,524,061)</b>	<b>(757,200)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(102,589,232)</b>	<b>(69,134,418)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>126,416,563</b>	195,550,981
<b>Cash and cash equivalents at the end of the Year</b>	8	<b>23,827,331</b>	<b>126,416,563</b>

**XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**

ITEMS	Original Budget	Adjustments	Final Budget	Actual on Comparable basis	Performance difference	Performance %
<b>Revenue</b>						
Transfers from Ministry	248,310,000	-	248,310,000	248,310,000	-	
Transfers from other Government	-	-	-	-	-	
Donor Receipts-Direct payments	-	-	-	22,571,171	22,571,171	100
Other income:						
-Bank interest	-	-	-	394,148	394,148	100
-previous year balance	126,416,563	-	126,416,563	126,416,563	-	
<b>Total revenue</b>	<b>374,726,563</b>	<b>-</b>	<b>374,726,563</b>	<b>397,691,882</b>	<b>22,965,319</b>	
<b>Expenses</b>						
Employee costs	96,340,000	(3,500,000)	92,840,000	92,575,213	264,787	0.003
Board Expenses	12,500,000	1,500,000	14,000,000	13,965,788	34,212	0.002
Grants and subsidies	55,000,000	500,000	55,500,000	55,158,470	341,530	0.006
Operating expenses	194,386,563	3,300,000	197,686,563	197,641,019	45,544	0.000
Fixed Asset	16,500,000	(1,800,000)	14,700,000	14,524,061	175,939	0.002
<b>Total expenses</b>	<b>374,726,563</b>	<b>(1,800,000)</b>	<b>375,726,563</b>	<b>351,293,380</b>	<b>862,541</b>	
<b>Surplus for the period</b>				<b>23,827,331</b>		

**NOTE:** Performance difference of more than 10% is in the area of Direct payments and Bank interest. By the time budget was prepared donor ( British High Commission) had not fully confirmed payment for services on behalf of the Authority. While bank interest was generated from current account maintained by NIC bank; the amount involved is minimal and could not be projected at the time of budget making process.

## XVII. NOTES TO THE FINANCIAL STATEMENTS

### 1. Statement of compliance and basis of preparation

The Authority's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Authority. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise.

The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

### 2. ADOPTION OF NEW AND REVISED STANDARDS

#### i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2017

Standard	Impact
IPSAS 33: First time adoption of Accrual Basis IPSAS	<p><b>(Effective for annual periods beginning on or January 1, 2017)</b></p> <p>In January 2015, the IPSASB published IPSAS 33, First-time Adoption of Accrual Basis IPSASs. IPSAS 33 grants transitional exemptions to entities adopting accrual basis IPSASs for the first time, providing a major tool to help entities along their journey to implement IPSASs. It allows first-time adopters three years to recognize specified assets and liabilities. This provision allows sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period.</p> <p>The entity adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first time adoption of accrual basis does not apply to the entity.</p>
IPSAS 34: Separate Financial Statements	<p><b>(Effective for annual periods beginning on or January 1, 2017)</b></p> <p>In January 2015, the IPSASB published IPSAS 34, Separate Financial Statements. IPSAS 34 prescribes the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements</p> <p>The entity does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply</p>
IPSAS 35: Consolidated Financial Statements	<p><b>Effective for annual periods beginning on or January 1, 2017)</b></p> <p>In January 2015, the IPSASB published IPSAS 35, Consolidated Financial Statements. IPSAS 35 establishes principles for the preparation and disclosure of consolidated financial statements when an entity controls one or more entities. It requires an entity that controls one or more other entities to assess control over those entities based on the following:</p>

LAPSSET Corridor Development Authority  
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Standard	Impact
	<ul style="list-style-type: none"> <li>- Its power over the other entity</li> <li>- Its exposure or rights to variable benefits from involvement with the other entity</li> <li>- Its ability to control the nature, timing and amount of benefits from the other entity.</li> </ul> <p>Once control is assessed the controlling entity is supposed to prepare consolidated financial statements unless it meets all the criteria under section 5 of IPSAS 35.</p> <p>The entity does not have any subsidiaries , joint ventures or investments and therefore the standard does not apply</p>
<p><b>IPSAS 36:</b> Investments in Associates and Joint Ventures</p>	<p><b>(Effective for annual periods beginning on or January 1, 2017)</b></p> <p>In January 2015, the IPSASB published IPSAS 36, Investments in Associates and Joint Ventures. The Standard prescribes for the accounting for investments in associates and joint ventures and to set out requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard shall be applied by all entities with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest.</p> <p>The entity does not have investments in associates or joint ventures and therefore the standard does not apply</p>
<p><b>IPSAS 37: Joint Arrangements</b></p>	<p><b>Effective for annual periods beginning on or January 1, 2017)</b></p> <p>In January 2015, the IPSASB published IPSAS 37, Joint Arrangements. IPSAS 37 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly</p> <p>The entity does not have an interest in a joint arrangement and therefore the standard does not apply</p>
<p><b>IPSAS 38:</b> Disclosure of Interests in Other Entities</p>	<p><b>(Effective for annual periods beginning on or January 1, 2017)</b></p> <p>In January 2015, the IPSASB published IPSAS 38, Disclosure of Interests in Other Entities. IPSAS 38 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with, its interests in controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and the effects of those interests on its financial position, financial performance and cash flows.</p> <p>The entity does not have an interests in other entities and therefore the standard does not apply</p>

ii. **New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017**

<b>Standard</b>	<b>Effective date and impact:</b>
<b>IPSAS 39:</b> Employee Benefits	<b>Applicable: 1<sup>st</sup> January 2018</b> The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.
<b>IPSAS 40: Public Sector Combinations</b>	<b>Applicable: 1<sup>st</sup> January 2019:</b> The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3(applicable to acquisitions only) Business combinations and combinations arising from non exchange transactions which are covered purely under Public Sector combinations as amalgamations.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

iii. **Early adoption of standards**

The Authority did not early – adopt any new or amended standards in year 2017.

**3. Summary of significant accounting policies**

**a) Revenue recognition**

i) **Revenue from non-exchange transactions**

***Transfers from other government entities***

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Authority and can be measured reliably.

***Amortization of Capital Grants***

Economic benefits or service derived from Capital Grants/ Donations are measured at fair value and recognised on obtaining control of the asset and on yearly basis the assets are amortised over their useful life.

ii) **Revenue from exchange transactions**

**Interest income**

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

**b) Budget information**

The annual budget is prepared on the cash basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Authority and grants given to the Authority is budgeted for by National Government on cash-basis.

**c) Taxes**

**Current income tax**

The Authority is funded through National Treasury exchequer and it does not generate its own revenue for its operations. Hence the Authority does not pay corporate tax.

**d) Property, Plant and Equipment**

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Authority recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

The assets of LCDA are depreciated annually on a straight-line basis and the depreciable amount charged to income over the assets useful life at the following rates:-

	Asset	Depreciation (%)
i.	Furniture & Fittings:	12.5
ii.	Office partitions and Fixtures:	16.7
iii.	Office Equipment	12.5
iv.	Motor Vehicles	25
v.	Computer Equipment and Accessories:	33.3
vi.	Property, Plant and Equipment's:	10

When an asset is acquired within the year, proportional depreciation is charged in the year of purchase and proportional depreciation charged in the year of disposal.

**e) Leases**

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Authority. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

**f) Financial instruments**

*Financial assets*

*Initial recognition and measurement*

Financial assets are Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Authority determines the classification of its financial assets at initial recognition.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

*Impairment of financial assets*

The Authority assesses at each reporting date whether there is objective evidence that a financial asset or a Authority of financial assets is impaired. A financial asset or a Authority of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Authority of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a Authority of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

**g) Financial liabilities**

*Initial recognition and measurement*

Financial liabilities are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Authority determines the classification of its financial liabilities at initial recognition.

**LAPSET Corridor Development Authority**  
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All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

**h) Provisions**

Provisions are recognized when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Authority expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

***Contingent liabilities***

The Authority does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

***Contingent assets***

The Authority does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

**i) Nature and purpose of reserves**

The Authority creates and maintains reserves in terms of specific requirements. Capital grants relate to donated assets.

### Capital Grants

Capital grants comprises of the following assets donated by the office of the Deputy President, Lake Basin Development Authority, Coast Dev. Authority and Ewaso Nyiro North Dev. Authority. These assets were initially recognized at fair value when they were donated and subsequently depreciated at the applicable depreciation rates. Income is recognized annually under the amortized capital grant over the useful life of the asset.

TYPE	NO	DONOR	PURPOSE			
Motor Vehicles	5	Office of the Deputy President	For use by the Authority			
Furniture	Assorted		For use by the Authority			
Partitions	Assorted	<table border="1"> <tr> <td>Lake Basin Dev. Furniture</td> </tr> <tr> <td>Coast Dev. Authority</td> </tr> <tr> <td>Ewaso Nyiro North Dev. Authority</td> </tr> </table>	Lake Basin Dev. Furniture	Coast Dev. Authority	Ewaso Nyiro North Dev. Authority	For use by the Authority
Lake Basin Dev. Furniture						
Coast Dev. Authority						
Ewaso Nyiro North Dev. Authority						

#### j) Changes in Accounting Policies and Estimates

The Authority recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

#### k) Employee benefits

##### Retirement benefit plans

The Authority provides retirement benefits for its employees. Defined contribution plans are post employment benefit plans under which an Authority pays fixed contributions into a separate Authority (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

#### l) Foreign policy transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction/ disbursement.

#### m) Related parties

The Authority regards a related party as a person or an Authority with the ability to exert control individually or jointly, or to exercise significant influence over the Authority, or vice versa. Members of key management are regarded as related parties and comprise the CEO and senior managers.

**n) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**p) Comparative figures**

Prior period comparative information has been presented in the current financial year where necessary, comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

**q) Significant Judgments and Sources of Estimation Uncertainty**

The preparation of the Authority's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts

of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

***Estimates and assumptions***

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Authority based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Authority. Such changes are reflected in the assumptions when they occur.

***Useful lives and residual values***

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Authority.
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes.
- The nature of the processes in which the asset is deployed.
- Availability of funding to replace the asset.
- Changes in the market in relation to the asset.

### **Financial risks**

The Authority's activities exposed to variety of financial risks such as credit and liquidity risks. The Authority regularly reviews its management policies and systems to reflect changes in markets and emerging best practices. Risk management is carried out by the management under the direct supervision of the board of the directors.

#### **Credit risks**

Credit risk refers to the risk that counterparty will default on its contractual obligation resulting in financial loss to the Authority. Credit risk arises from bank balances, receivables and amount due from related parties.

Although this risk is unlikely to occur in the short term, it is mitigated as follows:

- i. Cash and short term deposits are placed with well established financial institutions of high quality and credit standing and approved by Central Bank of Kenya.
- ii. The Authority does not raise debtors in its ordinary course of operations. The Credit risk in respect to accounts receivable is limited due to the nature of the Authority's operations.
- iii. When it comes to Office rent, the Authority entered into agreement with landlord to be paying on quarterly instead of yearly basis.

#### **r) Liquidity Risk**

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations when they fall due. The Authority's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or at the risk of damaging the Authority reputation. The Authority ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. The Authority reinforce this practice by adhering to approved budget and committing/ reserving funds raising purchase/ service orders.

The Authority is banking with reputable financial institutions with sound financial base that will always effect payments from Authority's balances on authorised instructions.

All liquidity policies and procedures are subject to review and approval by the board.

#### **Subsequent Events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30<sup>th</sup>, 2017

### 1. TRANSFERS FROM MINISTRIES, DEPARTMENT AND AGENCIES

	Amount recognized to statement of the comprehensive Income	Amount deferred under deferred income ksh	Amount recognized in Capital Fund ksh	Total income during the year Shs	2015/2016 ksh
State Department of Transport	248,310,000	Nil	-	-	293,000,000
Donor Receipts (Direct payments)	22,571,171				
<b>Total</b>	<b>270,881,171</b>				<b>293,000,000</b>

**Note:** All transfers for the period meant for the Authority were received. Direct payment was made on behalf the Authority by British High Commission to ATKINS for under taking Lamu port master plan studies.

### 2. OTHER INCOME

	2016/2017	2015/2016
Amortized Capital Grant	9,312,694	9,312,694
Interest Income earned	394,148	37,204
<b>Total</b>	<b>9,706,842</b>	<b>9,349,898</b>

### 3. EMPLOYEE COMPENSATION, STATUTORY DEDUCTIONS AND LAMU STEERING COMMITTEE

#### 3.1 EMPLOYEE COST

	2016/2017 Kshs	2015/2016 Kshs
Basic Salaries of Permanent Employees	54,076,328	49,413,947
Medical Aids	-	-
Gratuity	3,517,917	8,341,561
Leave allowance	2,853,919	3,037,335
Pension	10,880,799	728,405
<b>Sub-Total</b>	<b>71,328,963</b>	<b>61,521,248</b>

#### 3.2 STATUTORY DEDUCTIONS

	2016/2017 Kshs	2015/2016 Kshs
PAYE	19,633,290	19,700,009
NHIF	1,612,960	452,350
<b>Sub - Total</b>	<b>21,246,250</b>	<b>20,152,359</b>

### 3.3 LAMU STEERING COMMITTEE

	2016/2017 Kshs	2015/2016 Kshs
Lamu Emoluments/Reimbursements	-	-
Sub-Total	-	-
<b>Total (sub-totals 3.1-3.2)</b>	<b>92,575,213</b>	<b>81,673,607</b>

#### Reconciliation

Employees Compensation	2016/2017	2015/2016
Statement of Cash Flow 2016/2017	92,575,213	81,673,607
Add: Prepayments 2015/2016	484,833	Nil
Add: Accruals 2016/2017	5,464,678	6,252,565
Less: Accruals 2015/2016	(9,632,502)	7,693,718
Less: Prepayments 2016/2017	(775,833)	484,833
<b>Statement of Performance 2016/2017</b>	<b>88,116,389</b>	<b>79,747,671</b>

### 4. BOARD COST

	2016/2017 Kshs	2015/2016 Kshs
Board expenses	12,921,788	6,791,518
Chairman's Honoraria	1,044,000	1,044,000
<b>Total</b>	<b>13,965,788</b>	<b>7,835,518</b>

### 5. DEPRECIATION

	2016/2017 Kshs	2015/2016 Kshs
Motor vehicles	5,864,853	5,577,512
Computer and Accessories	1,246,908	1,092,065
Furniture and Fittings	215,206	140,716
Partitions	3,735,182	3,735,182
<b>Total</b>	<b>11,062,149</b>	<b>10,545,474</b>

### 6. GRANTS AND SUBSIDIES

	2016/2017 Kshs	2015/2016 Kshs
Presidential Youth Scholarship programme**	55,158,470	43,977,852

### Reconciliation

Grant and Subsidies	2016/2017	2015/2016
<b>Statement of Cash Flow 2016/2017</b>	<b>55,158,470</b>	<b>43,977,852</b>
Add: Prepayments 2015/2016	0	2,824,383
Add: Accruals 2016/2017	6,539,074	11,225,824
Less: Accruals 2015/2016	(11,225,824)	(602,310)
Less: Prepayments 2016/2017	0	0
<b>Statement of Performance 2016/2017</b>	<b>50,471,720</b>	<b>57,425,750</b>

\*\*Note: Grants and subsidies relate to Presidential Youth Scholarship Programme whereby students from Lamu County were sponsored in various institutions of higher learning. During the year ended 2016/2017 a total of Kshs 55,158,470 was paid.

### 7. OPERATING EXPENSES

	2016/2017 Kshs	2015/2016 Kshs
Telephone, Postage and Courier	4,037,771	2,061,039
Field coordination Activities and Conferences	18,498,369	4,858,035
Local Investor-Engagements	7,852,556	2,731,689
Administration, Management & Monitoring of the Scholarship programme ]	1,186,256	418,645
Project Counties & Stakeholders Consultative forums	17,340,300	5,883,205
Lamu Project Ground breaking Preparation	0	0
Survey of Corridor	11,207,340	46,200,830
Corridor Security Master Planning Activities	1,149,000	179,775
International conferences and Project Investor engagements	16,210,184	26,859,902
Printing, Advertising and Information Supplies & Services	4,128,116	10,035,420
Rent Expenses	22,830,748	25,325,921
Training Expenses	2,311,274	4,126,850
Hospitality supplies and Services	5,873,083	3,261,371
Strategic Planning Costs	0	2,805,925
Project Coordination Assignments	4,593,679	5,745,696
Office and Project Operation stationeries	5,015,338	4,158,577
Project Planning and Preparation Activities	3,595,953	1,543,462
Project Vehicles Operation Cost	8,275,908	9,019,386
Cleaning Services	977,700	378,270
Insurance	2,000,000	7,264,605
Consultancy	56,260,667	53,062,887
General Expenses*	3,820,967	11,596,583
Repair and Maintenance	475,809	409,371
<b>Sub Total</b>	<b>197,641,019</b>	<b>227,927,445</b>

### Reconciliation

<b>Operating Expenses</b>		
<b>Statement of Cash Flow 2016/2017</b>	<b>197,641,019</b>	<b>227,927,445</b>
Add: Prepayments 2015/2016	10,919,093	10,756,171
Add: Accruals 2016/2017	20,217	0
Less: Accruals 2015/2016	0	0
Less: Prepayments 2016/2017	(3,464,544)	10,818,093
<b>Statement of Performance 2016/2017</b>	<b>205,115,785</b>	<b>227,764,523</b>

\*General expenses include Lamu port land allocation expenses, bank charges, gazetting of LAPSSET corridor, membership subscriptions and newspapers.

## 8. DETAILED ANALYSIS OF CASH AND CASH EQUIVALENTS

For the purposes of cash flow cash and cash equivalents include bank balances, cash in hand, salary advance and staff imprest

### Banks/Cash

		<b>2017</b>	<b>2016</b>
		<b>KShs</b>	<b>KShs</b>
<b>Financial Institution</b>	<b>Account Number</b>		
<b>Current Accounts</b>			
<b>Kenya Commercial Bank</b>	1142485498	1,359,533	54,236,424
<b>NIC-Bank</b>	1001309354	1,260,648	10,150,472
<b>CFC Stanbic-Bank</b>	0100004036397	21,194,984	61,991,946
<b>Sub-Total</b>		<b>23,815,165</b>	<b>126,378,842</b>
<b>b) Others</b>			
<b>Cash In hand</b>		12,166	37,721
<b>Sub-Total</b>		<b>12,166</b>	<b>37,721</b>
<b>Total</b>		<b>23,827,331</b>	<b>126,416,563</b>

## 9. RECEIVABLES FROM EXCHANGE TRANSACTIONS

	<b>2016/2017</b>	<b>2015/2016</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Balance at the Beginning of the Year</b>	<b>11,403,926</b>	<b>13,580,554</b>
<b>Additional provision Raised</b>		
<b>Rent</b>	1,458,744	3,648,687
<b>Post Office</b>	5,800	5,800
<b>Medical Insurance</b>	2,000,000	7,264,605

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Salary Advances	775,833	484,833
Provision Utilized During the Year	11,403,926	13,580,554
<b>Total</b>	<b>4,240,377</b>	<b>11,403,926</b>

**10. PROVISIONS AND PAYABLES**

	2016/2017 Kshs	2015/2016 Kshs
Presidential Youth Scholarship	6,539,074	11,225,824
Staff Pension	-	6,215,023
Insurance -Motor Vehicle	20,217	
<b>Total</b>	<b>6,559,291</b>	<b>17,440,848</b>

**11. EMPLOYEE BENEFIT OBLIGATION-GRATUITY**

	2016/2017 Kshs	2015/2016 Kshs
Balance at the beginning of the year	3,417,478	7,567,718
Additional provisions raised	5,565,115	5,565,116
Provisions utilized	3,517,917	9,715,356
<b>Closing Balance</b>	<b>5,464,677</b>	<b>3,417,478</b>

**Note:** Gratuity is payable to qualifying employees at a rate of 31% of the basic salary. This being the gratuity balance due amounting to Kshs **5,464,677** relating back from March, 2016. Detail balances are as follows;

**SERVICE GRATUITY FOR FY 2016/2017 BALANCES**

Officer Name:	Designation	Closing Balance As at 30th,June,2017
Silvester Kasuku	Director General/CEO	3,039,279
James Esimit Achuka	HR/Admin Manager	242,998
Norman N. Muraya	Senior Economist	744,000
Judith Sarange	Economist	639,840
Lucy W. Mburu	Secretary	111,600
Bernard O. Oluoch	Finance Officer	396,800
Dorothy W.Nziki	Record Management Officer	290,160
<b>TOTAL</b>		<b>5,464,677</b>

## 12. CASH GENERATED FROM OPERATIONS

	2016/2017 Kshs	2015/2016 Kshs
<b>Surplus for the Year</b>	<b>(88,143,817)</b>	<b>(80,968,988)</b>
<b>Adjusted for:</b>		
<b>Depreciation</b>	11,062,149	10,545,474
<b>Amortized capital grant</b>	(9,312,694)	(9,312,694)
<b>Working capital changes</b>		
<b>Increase in prepayments</b>	7,163,548	2,176,628
<b>Increase in provision</b>	0	
<b>Increase in grant receivable</b>	0	
<b>Increase in provisions and payables</b>	(10,881,556)	13,332,601
<b>Increase in gratuity</b>	2,047,200	(4,150,240)
<b>Net cash flow from operating activities</b>	<b>(88,065,171)</b>	<b>(68,377,218)</b>

**13. PROPERTY AND EQUIPMENT**

Cost/Valuation	Motor Vehicles	Furniture and Fittings	Partitions	Computers	Totals
	Kshs	Kshs	Kshs	Kshs	Kshs
<b>As at 1<sup>st</sup> July 2015</b>	22,310,048	1,068,875	22,366,358	3,074,042	48,819,323
Additions during the year	-	250,000	-	507,200	757,200
Disposals	-	-	-	-	-
Transfers/ Adjustments	-	-	-	-	-
<b>As at 30<sup>th</sup> June 2016</b>	22,310,048	1,318,875	22,366,358	3,581,242	49,576,523
Additions during the year	13,109,913	758,168.00	-	655,980.00	14,524,061
Disposals	-	-	-	-	-
Transfers/ Adjustments	-	-	-	-	-
<b>As at 30<sup>th</sup> June 2017</b>	35,419,961	2,077,043	22,366,358	4,237,222	64,100,584
<b>Depreciation and impairment</b>					
<b>As at 1<sup>st</sup> July 2015</b>	(5,745,601)	(114,134)	(4,901,787)	(636,333)	(11,397,855)
<b>Depreciation</b>	(5,577,512)	(140,716)	(3,735,182)	(1,092,065)	(10,545,474)
<b>Impairment</b>	-	-	-	-	-
<b>As at 30<sup>th</sup> June 2016</b>	(11,323,113)	(254,850)	(8,636,968)	(1,728,398)	(21,943,329)
<b>Depreciation</b>	(5,864,853)	(215,206)	(3,735,182)	(1,246,908)	(11,062,149)
<b>Impairment</b>	-	-	-	-	-
<b>As at 30<sup>th</sup> June 2017</b>	(17,187,966)	(470,056)	(12,372,150)	(2,975,306)	(33,005,478)
<b>Net book values</b>					
<b>As at 30<sup>th</sup> June 2017</b>	18,231,995	1,606,987	9,994,208	1,261,916	31,095,105
<b>As at 30<sup>th</sup> June 2016</b>	10,986,935	1,064,025	13,729,390	1,852,844	27,633,193

## XVIII. DISCLOSURE NOTES

### RELATED PARTIES DISCLOSURES

#### a) Government of Kenya

The Government of Kenya through the State Department of Transport is the principal shareholder of LAPSSET Corridor Development Authority, holding 100% of the equity interest. There were no other related party transactions involving the Government of Kenya.

#### b) Key Management Remunerations

Members of key management personnel comprise the chief executive officer and senior managers. Their aggregate remuneration is as tabulated below

Item	FY 2016/2017	FY 2015/2016
Emoluments	30,653,998	30,653,998
<b>Total</b>	<b>30,653,998</b>	<b>30,653,998</b>

#### c) Board of Directors

The board provides policies for overall risk management as well as policies covering specific areas such as credit risk and liquidity risk.

Item	FY 2016/2017	FY 2015/2016
Board Expenses	12,921,788	6,791,518
Chairman's Honoraria	1,044,000	1,044,000
<b>Total</b>	<b>13,965,788</b>	<b>7,835,518</b>

#### *Provisions*

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 12

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

## XIX. FINANCIAL RISK MANAGEMENT DISCLOSURE

The Authority's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Authority's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

The Authority's financial risk management objectives and policies are detailed below:

### (i) Credit risk

The Authority has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

The amount that best describes the Authority's exposed to credit risk at the end of the financial year is made up as follows.

	2016/2017 Kshs	2015/2016 Kshs
Cash at Bank	23,827,331	126,378,842
Post Office Box	5,800	5,800
Prepaid Rent	1,458,744	3,648,687
Prepaid Medical Insurance	2,000,000	7,264,605
Staff Travel Imprest	0	37,140
Salary Advance	775,833	484,833

### (ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Authority directors, who have built an appropriate liquidity risk management framework for the management of the Authority's short, medium and long-term funding and liquidity management requirements. The Authority manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The amount that best describes the Authority liquidity risk at the end of the financial year is made up as follows

	Less than 1 month Kshs	Between 1- 3 months Kshs	Over 5 months Kshs	Totals Kshs
<b>At 30<sup>th</sup> June 2017</b>				
Presidential Youth Scholarships	0	6,539,074	0	6,539,074

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	<b>Less than 1 month</b>	<b>Between 1- 3 months</b>	<b>Over 5 months</b>	<b>Totals</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
Staff Gratuity	1,383,840	0	4,080,837	<b>5,464,677</b>
Insurance	20,217	0		<b>20,217</b>
<b>At 30<sup>th</sup> June 2016</b>				
Staff Pension	0	0	6,215,023	<b>6,215,023</b>
Presidential Youth Scholarships	0	11,225,824	0	<b>11,225,824</b>
Staff Gratuity	0	3,417,478	0	<b>3,417,478</b>
Provisions	0	68,685,933	0	<b>68,685,933</b>

**(iii) Market risk**

The Board has put in place an internal audit function to assist it in assessing the risk faced by the Authority on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Authority's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The Authority's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the Authority's exposure to market risks or the manner in which it manages and measures the risk.

The Authority has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid within 14 days from the date of the invoice and conversion at the time of payment is done using the exchange rate prevailing at the date of opening of contract.

### Interest rate risk

Interest rate risk is the risk that the Authority's financial condition may be adversely affected as a result of changes in interest rate levels. The Authority's interest rate risk arises from bank deposits. This exposes the Authority to cash flow interest rate risk.

The interest rate risk exposure arises mainly from interest rate movements on the Authority's deposits.

### Management of interest rate risk

To manage the interest rate risk, management has endeavored to bank with institutions that offer favourable interest rates.

### r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

	2016/2017	2015/16
	Kshs	Kshs
Liquid cash	12,166	581
Imprest	0	37,140
Salary Advance	775,833	484,833
<b>Total</b>	<b>787,999</b>	<b>522,554</b>

### iv) Operating leases

The Authority is exposed to operating lease risks, where the Authority may enter into lease agreement with another entity and Authority may fail to receive services as it ought to be.

The Authority is accommodated at Chester House 2<sup>nd</sup> floor, Koinange Street, Nairobi under Five (5) years and (1) month agreement at a quarterly payment of Kshs.5, 473,031.00

### s) Capital commitments

	2016/2017	2015/2016
	Kshs	Kshs
<b>Contracted (Balances)</b>	<b>nil</b>	<b>49,022,528</b>

Capital commitments are disclosed in respect of contracted amount for which delivery by the contractor is outstanding at the accounting date.

The Authority has contractual obligation with consultants of various contracted services some of the running beyond 30<sup>th</sup>, June, 2017

**v) Contingent liabilities**

During the year under review the Authority had no contingent liabilities

**vi) Ultimate holding entity**

Ultimate holding entity for the Authority is the Government of Kenya.

**vii) Land**

During the year under review the Authority was allotted 28,139 hectares of land for the Lamu Port and associated investment components.

**Subsequent Events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30<sup>th</sup>, 2017

## XX. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	Scholarship -10 students not from Lamu county.	Students are from Lamu though identification numbers are from counties of birth.	Mr. Benson Thuita – Corporate Affairs	Not resolved	
2.1&2.2	Contracted Consultancy Services – no evidence of negotiation	As per the law in procurement its not mandatory to conduct negotiations if term and scopes of the assignments aree agreeable to both parties.	Mr. Benjamin Mutea – A.g Procurement	Not resolved	
3	Actual expenditure differences	Actual expenditure reflected in the statements of comparison of Budget were actual amounts spent while the figures in the statement of financial performance were adjusted figures taking care of accruals.	Mr. Morris Owili – Ag. Accounts Manager	Not resolved	

**XXI. APPENDIX: INTER-ENTITY TRANSFERS**

<b>ENTITY NAME:</b>		LAPSSET CORRIDOR DEVELOPMENT AUTHORITY		
<b>Break down of Transfers from the State Department of Transport</b>				
<b>FY 16/17</b>				
a.	Recurrent Grants			
		<u>Bank Statement</u>		
		<u>Date</u>	<u>Amount (KShs)</u>	
	Recurrent	30/09/2016	62,077,500	<u>2016/2017</u>
	Recurrent	31/10/2016	62,077,500	<u>2016/2017</u>
	Recurrent	27/02/2017	62,077,500	<u>2016/2017</u>
	Recurrent	10/05/2017	62,077,500	<u>2016/2017</u>
		<b>Total</b>	<b>248,310,000</b>	

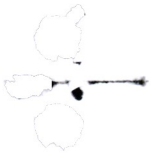
The above amounts have been communicated to and reconciled with the parent Ministry

**Ag. Finance Manager**  
 LCDA

**Head of Accounting Unit**  
 State department of Transport

Sign 

Sign 



## **XXII. Appendix 2: PROJECTS IMPLEMENTED BY THE AUTHORITY**

Projects

During the year under review there was no project implemented by the Authority

**XXIII. Appendix 3: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES**

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount - KES	Where Recorded/recognized					Total Transfers during the Year
				Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others – statement of cash flow	
British High Commission	Direct payments	Donor Fund	22,571,171	22,571,171	0	0	0	22,571,171	22,571,171
<b>Total</b>			<b>22,571,171</b>	<b>22,571,171</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>22,571,171</b>	<b>22,571,171</b>

