

REPUBLIC OF KENYA



*Paper laid  
By Leader of  
Majority party  
on wed 26/8/15*

KENYA NATIONAL AUDIT OFFICE



REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
KENYA MARITIME AUTHORITY

FOR THE YEAR ENDED  
30 JUNE 2014



For year ended 30 June 2014



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**KENYA MARITIME AUTHORITY**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**  
**JUNE 30, 2014**

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Prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS)

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## **I. KEY ENTITY INFORMATION AND MANAGEMENT**

### **(a) Background information**

Kenya Maritime Authority (KMA) was established on 21<sup>st</sup> June, 2004 vide Legal Notice Number 79 of 2004. The Board is in charge of giving strategic direction and the Director General is seized with the day to day affairs of the Authority.

### **(b) Principal Activities**

The mandate of KMA is to regulate, co-ordinate and oversee maritime affairs. Its Vision is to be a To be a leading maritime administration transforming Kenya into a globally competitive nation and its Mission is to ensure sustainable safe, secure, clean and efficient water transport for the benefit of stakeholders through effective regulation, coordination and oversight of maritime affairs.

### **Key objectives**

The following are the key objectives of KMA:-

- (i) To develop an appropriate legal and regulatory framework and partnerships for maritime development.
- (ii) To strengthen the Authority's institutional capacity to deliver on its mandate.
- (iii) To enhance maritime safety, security and protection of marine and aquatic environment.
- (iv) To advocate for the provision of a globally competitive maritime education and training.
- (v) To promote maritime research and development.
- (vi) To create a conducive environment for supply of competitive and quality commercial maritime services.

### **(c) Key Management**

The Authority's day-to-day management is under the following key organs:

- The Board of Directors
- The Director General
- The Senior Management

## I. KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

### (d) Fiduciary Management

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2014 and who had direct fiduciary responsibility were:

No.	Designation	Name
1	Director General	Mrs. Nancy Karigithu
2	Head of Maritime Safety	Mr. Wilfred Kagimbi
3	Head of Corporate Support Services	Mr. Cosmas Cherop
4	Corporation Secretary & Head of Legal Services	Mrs. Margaret N. Mwangi
5	Head of Commercial Shipping	Mr. John Omingo

### (e) Fiduciary Oversight Arrangements

#### (i) Finance and Human Resource committee activities

- a) The committee considers and submits for approval by the Board financial estimates of KMA's revenue and expenditure for the following financial year including proposals for funding all projects to be undertaken/completed during the year within the time frames laid down in law;
- b) Monitor expenditure and provide quarterly reports to the Board confirming that all expenditure is within the estimates approved by the Board;
- c) Developing a human resource policy consistent with the changing needs of KMA.

#### (ii) Technical and Operations Committee

- d) Setting targets and negotiating on performance contracts;
- e) Reviewing and reporting on performance contract obligations to the Board;
- f) Ensuring that KMA's maritime safety and security obligations are effectively discharged;
- g) Facilitating, monitoring and overseeing the implementation of the maritime education and training curriculum in various institutions;
- h) Enhancing the legal framework;
- i) Setting strategic direction for KMA and monitoring the implementation of the strategic plan;

**I. KEY ENTITY INFORMATION AND MANAGEMENT (Continued)**

j) Raising the standards of corporate governance on behalf of the Board;

Overseeing the development, preparation and implementation of corporate communication policies and recommending management publicity programmes to the Board; and  
Providing guidance on Corporate Social Responsibility activities and monitoring their implementation.

**(iii) Audit Committee activities**

- (a) Review with the internal and external auditors the co-ordination of audit effort to ensure completeness of coverage, avoid duplication of effort, and promote the effective use of audit resources.
- (b) Review with the internal and external auditors the co-ordination of audit effort to ensure completeness of coverage, avoid duplication of effort, and promote the effective use of audit resources.
- (c) Make recommendations to management for improvements on weaknesses identified in order to strengthen internal controls;
- (d) Review the legal and regulatory matters that may have a material impact on the financial statements, related compliance policies, and reports received from consultants.
- (e) Give guidelines on risk management.

**(a) Entity Headquarters**

P.O. Box 95076 - 80104  
White House Building  
Next to MSC Plaza  
Moi Avenue  
Mombasa

**(b) Entity Contacts**

Telephone: (254) 041 2318398/9  
E-mail: [info@kma.go.ke](mailto:info@kma.go.ke)  
Website: [www.kma.go.ke](http://www.kma.go.ke)

**(c) Entity Bankers**

- i. Kenya Commercial Bank  
Kilindini Branch  
P O Box 90300  
Mombasa.
- ii. Kenya Commercial Bank  
Kisumu Branch  
P. O. Box 4117-40100  
Kisumu.
- iii. National Bank of Kenya  
P. O. Box 87770-80100,  
Mombasa.

**KEY ENTITY INFORMATION AND MANAGEMENT (Continued)**

**(f) Entity Bankers (Continued)**

- iv. Equity Bank  
Moi Avenue Branch  
P. O. Box 84618-80100  
Mombasa.





**(d) Independent Auditors**

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





**(e) Principal Legal Adviser**

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






**II. THE BOARD OF DIRECTORS**

	NAME AND QUALIFICATION	DATE OF BIRTH AND EXPERIENCE
1	<p>Mr. Mwalimu Digore Kitambi</p>  <p>BSC in Physics &amp; Mathematics</p>	<p>20.7.1961                      26 years' work experience</p>
2	<p>Mrs. Nancy W. Karigithu</p>  <p>LLM-International Maritime Law</p>	<p>24. 7. 1959                      30 years' work experience</p>
3	<p>Ms. Agnes Ndwiga</p>  <p>MSC in Development Finance, B.Com.</p>	<p>04.9.1962                      27 years' work experience</p>
4	<p>Mr. Silvester M.Kututa</p>  <p>B.A ECN, MSC Shipping, FICS, BIMCO</p>	<p>01.10.1966                      23 years' work experience</p>



**II. BOARD OF DIRECTORS (Continued)**

<p>5</p>	<p>Mr. Joseph .K. Kamiri</p>  <p>MBA(Marketing),B.Com (Hons)Insurance              Option,AMP,IESE</p>	<p>1967                  22 years' of experience</p>
<p>6</p>	<p>Ms. Bertha Joseph Dena</p>  <p>MBA,B.Com(Hons)CPA,CPS</p>	<p>19.06.1956                  31 years' of experience</p>
<p>7</p>	<p>Mr. Rocky Seif Bendera, HSC</p>  <p>Masters In Education</p>	<p>03.02.1953                  35 years' of experience</p>
<p>8</p>	<p>Ms. Roselyn Amadi (Alt. Director To The Hon. Ag)</p>  <p>Bachelors of Laws (Hons)</p>	<p>17.10.1955</p>






**II. BOARD OF DIRECTORS (Continued)**

9	<p>Ms. Geraldine M. Maingi (Alt. Director To The PS, MoT&amp;I)</p>  <p>B.A(Hons) Public Admin &amp; MSC Maritime Admin.</p>	<p>21.09.1959                  27 years' of experience</p>
10	<p>Mr. John K. Njera (Alt. Director To The PS, National Treasury)</p>  <p>Masters in Computer Science, Masters of Art in Economics(ongoing)</p>	<p>1967                  21 years' of experience</p>
11	<p>Mr. Said Gulleid</p>  <p>Certified in Accounting</p>	<p>12.7.1973                  11 years' of experience</p>
12	<p>Mr. Nduva Muli, EBS</p>  <p>MBA,BA (Hons) Land Economics.</p>	
13	<p>Dr. Kamau Thugge</p>  <p>B.A (Hons) Economics, M.A Economics &amp; PHD Economics</p>	<p>15.11.1951</p>

II. BOARD OF DIRECTORS (Continued)

14	<p>Mrs. Margaret Mwangi</p>  <p>Bachelor of law (Hons) Diploma in law</p>	16.8.1966
15	<p>Col (Rtd) Joseph N Nguru, EBS</p>  <p>Master of Science in Naval Management, RTD Naval Officer.</p>	10 <sup>th</sup> JULY, 1944 43 years of experience

### III. MANAGEMENT TEAM

1. Mrs. Nancy Karigithu – Director General	RESPONSIBILITY
 <p>LLM-International Maritime Law</p>	<p>Responsible for setting and executing the overall business strategy for Kenya Maritime Authority (KMA) and translating Board and Shareholder mandates to the business and representing Management in the board. The position ensures that the authority meets its strategic objectives to achieve its overall goals</p>
<p>2. Mr. Wilfred Kagimbi – Head of Maritime Safety</p>  <p>Master of Science Maritime Safety Admin., Bachelor of Marine Engineering</p>	<p>Responsible for overseeing and implementing Port State Control, Flag State Implementation duties, pollution prevention and control, search and rescue, receiver of wrecks, casualty investigation and development of ship construction standards and ensuring compliance.</p>
<p>3. Mr. Cosmas Cherop – Head of Corporate Support Services</p>  <p>Bachelor Of Arts, MBA (Finance), CPA (K)</p>	<p>Responsible for ensuring that all the operations of the Authority are running smoothly by providing the critical link between the Authority and all its stakeholders. To ensure that fairness is upheld when dealing with suppliers and ensure that all laws, rules and regulations are followed at all times by the authority staff. Overseeing the human resources and administration, ICT and finance departments.</p>
<p>4. Mr. John Omingo – Head of Commercial Shipping</p>  <p>Bachelor of Ed (SC), MSC (Shipping Admin.) Post Graduate Diploma in Transport Management</p>	<p>Responsible for coordinating, regulating and overseeing the orderly development and optimal provision of commercial maritime services in the country. Responsible for liaising with maritime organization / institutions on commercial matters of national, regional and international and conduct public awareness campaigns on the carriage of goods by sea. Ensuring the regulation of commercial maritime services in the country.</p>
<p>5. Mrs. Margaret N. Mwangi – Corporation Secretary &amp; Head of Legal Services</p>  <p>Bachelor of Laws (hons), Diploma in law</p>	<p>Giving legal advice to the Board and the Authority, legal compliance, corporate governance, making administrative arrangements for the board, preparation of board papers, minute taking and custody of Board minutes.</p>

#### IV. CHAIRMAN'S STATEMENT

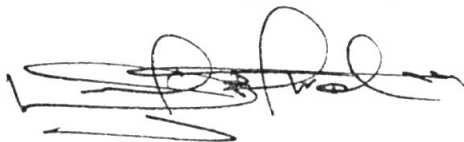
Kenya Maritime Authority (KMA) came into being through Legal Notice Number 79 of 2004 dated 21<sup>st</sup> June 2004. The first Board of Directors was appointed in January 2005 and inaugurated by the Minister on 24<sup>th</sup> March 2005.

Activities of the Board and the Authority are funded by grants from the Exchequer, proceeds from Merchant Shipping (MS) Levy and other miscellaneous incomes.

The accounts for 2013/2014 show a surplus of Kshs 269,280,283/= after considering revenue expenditure. Development expenditure was in excess of Kshs 80 million. The Authority is searching for land to construct KMA head quarter. The option of acquiring the current premises (Whitehouse) is being pursued.

The Authority contracted the development of curriculum support materials and the development of instructors' guide and trainees' manuals for both certificate and diploma in maritime transport Logistics with Kenya Institute of Curriculum Development. The works are ongoing. The Oil spill response and Emergency search and rescue mobilization funds were boosted by an amount of Kshs.40 Million.

I wish to take this opportunity to extend my gratitude and that of the Board of directors to the Government, the Ministry of transport & infrastructure, staff of Kenya Maritime Authority and all our customers/stakeholders for the great support extended to us over the current period under review. We wish to assure all of you that together we shall make KMA a truly great public organization.



**MR. MWALIMU DIGORE KITAMBI**  
**CHAIRMAN**

## V. REPORT OF THE DIRECTOR GENERAL

Kenya Maritime Authority (the “Authority”) was established through Legal Notice No. 79 of 2004 to regulate, co-ordinate and oversee maritime affairs in Kenya. To strengthen Kenya’s maritime administration, Parliament enacted the Kenya Maritime Authority Act in 2006.

The Authority’s Vision is “*To be a leading maritime authority transforming Kenya into a globally competitive nation*” and its Mission Statement is “*To ensure sustainable safe, secure, clean and efficient water transport for the benefit of stakeholders through effective regulation, coordination and oversight of maritime affairs in Kenya.*”

The Authority has four departments namely; Corporation Secretariat & Legal Services, Maritime Safety, Corporate Support Services, and Commercial Shipping, each of which is under the leadership of a Head of Department and the Directorate. The Directorate directs the Authority’s entire operations and is headed by the Director-General who is also the Chief Executive Officer of the Authority.

The Maritime Safety and Commercial Shipping divisions are the core divisions of the Authority and are charged with the responsibility to regulate maritime logistics services and shipping by undertake port state and flag state inspections of ships respectively. The Corporate Secretariat and Legal Services provides legal and policy guidance and advice to the core divisions and the Corporate Services Division provides corporate support services to the Authority. The Corporate Services Department facilitates the other departments in the delivery of their responsibilities and performance of their duties by providing finance and administrative support.

The Authority has, to date, established three branch offices in Kisumu, Lamu Island and Lodwar. Plans are underway to establish a fourth office in Kampi Samaki to serve boat owners and operators in Lake Baringo. The County offices will also serve as Search and Rescue Coordination Centres to help in coordination of search and rescue operations for any maritime and inland waters casualties and focal points for information sharing on issues relating to water transport.

## V. REPORT OF THE DIRECTOR GENERAL (continued)

During the 2013-2014 financial year, the Authority organized the following events which were aimed at sensitizing the public on the mandate of the Authority-

- i. Participated in Regional Agricultural Society of Kenya Trade Fairs which were held in Kisumu, Nakuru, Nairobi and Mombasa;
- ii. Visited high schools for career talk on the job opportunities available in the maritime industry; and
- iii. Organized open days in Lamu, Kisumu, and Mombasa.

In addition to the aforesaid, the Authority strives to reach all citizens in the Republic through publicity and awareness events, publications, organization, and participation in social events, for example, the world maritime day and KECOSO games and undertaking safety campaigns at public beaches during the festive seasons.

The Authority continues to enhance human resource capacity building through continuous training of marine engineers, nautical surveyors, ship inspectors, and maritime logistics experts. The Authority also continues to enhance capacity building in the maritime sector by enhancing capacity for local institutions of higher learning to offer marine engineering and nautical science courses through the development of curricula and accreditation of qualifying training institutions to offer maritime training in Kenya. This has not been without challenges, the primary challenge being the lack of facilities for trainees to undertake seaboard training, a core pre-requisite for one to obtain a certificate of competency and thus qualify to work as a seafarer or ship surveyor.

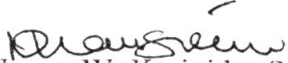
During the year under review, the Authority trained a selected number of staff members in sign language to enhance service delivery to the deaf community.

Finally, in the year under review, the Authority made significant progress to enhance development of the legal and regulatory framework for the maritime sector in Kenya. To this end, the Authority, has during the year under review, undertaken the review and alignment of the Merchant Shipping Act, 2009 and the Kenya Maritime Authority Act, 2009 to the Constitution, completed the drafting of the Marine Pollution and Coastguard Service Bills and completed the development of the regulations required under the Merchant Shipping Act, 2009. The Authority has also fostered a partnership with the County Government of Mombasa to ensure service delivery to stakeholders at all levels.

**V. REPORT OF THE DIRECTOR GENERAL (continued)**

The Authority shall always strive to live to its motto; “For safe and efficient water transport” to not only uphold but also improve on the standards attained in the year ended 30<sup>th</sup> June 2014.

I wish to thank the Board of Directors for timely approval of budgets, development proposals, and policies presented to them. I also wish to thank all of KMA Staff members for working diligently and tirelessly for the good performance to be achieved. Finally, I wish to express my gratitude to our stakeholders and the general public for keeping us focused on the delivery of our mandate by requesting and when need be, demanding for our services and whose cooperation made the maritime industry achieve great strides in the year 2013/14. To you all we say “We are because you are”.

  
Nancy W. Karigithu (Mrs.)

**DIRECTOR GENERAL**

## VI. CORPORATE GOVERNANCE STATEMENT

The Board of the Authority is responsible and accountable to the Government of Kenya through the Ministry of Transport and Infrastructure, in ensuring that the Authority complies with law and the highest standards of corporate governance.

During the 2013/2014 financial year, there were eleven (11) members of the Board all of whom, save for the Chief Executive Officer, were non - Executive. The members possessed a wide range of skills and competencies, including legal, finance, banking, insurance, education, economics and management.

During the period under review, the Board and its committees met 19 times.

The principal responsibility of the Board is to establish the long term goals of the Authority and to ensure that effective plans are developed and implemented. The members of the Board exercise their best judgment to act in what they reasonably believe to be in the best interests of the Authority and its stakeholders. In discharging that obligation, Members rely on the honesty and integrity of the Authority's management, senior staff and its external advisors and auditors.

### **The main responsibilities entail:**

- Reviewing the Authority's values, vision and mission and developing and adopting appropriate policy and strategy;
- Putting in place management structures (organization, systems and people) to achieve those objectives;
- Setting targets and monitoring performance;
- Guiding the implementation of strategic decisions and actions and advising management as appropriate;
- The review and adoption of annual budgets for the financial performance of the Authority and monitoring the Authority's performance and results;
- Management of risk, overseeing the implementation of adequate control systems and relevant compliance with the law, governance, accounting and auditing standards;
- Ensuring the preparation of annual financial statements and reports, communication, and disclosure of information to stakeholders; and

## VI. CORPORATE GOVERNANCE STATEMENT (continued)

- Delegating authority to the head of the institution, as Chief Executive, for the corporate, financial and personnel management of the institution; and to establish and keep under regular review the policies, procedures and limits within which such management functions shall be undertaken by and under the authority of the head of the institution.

### **Principles and guidelines governing the Board**

The Board embraces the following corporate governance guidelines and principles in execution of its mandate: (i) the combined code of corporate governance principles adopted from other jurisdictions as contained in the Authority's Board Manual and Code of Best Practice; (ii) the code of conduct and ethics for Board members, and (iii) the Public Officer & Ethics Act of 2003, that applies to public officers. The Authority's Directors are required to make a disclosure of any transaction which would constitute a conflict of interest and to abstain from voting when such matters are being considered.

The Authority's Directors exercise independent judgment and professional competencies for effective governance of the Authority as set out in the Board Manual. The manual clearly spells out important governance arrangements covering: (i) appointment of Directors; (ii) shareholder rights

(iii) respective roles and functions of the Board, the Chairman, the Director General and the Corporation Secretary; (iv) conduct of Board meetings; (v) Directors' induction and training; (vi) Directors' duties and liabilities; (vii) stakeholder communication; among others. Each Committee has specific terms of reference under which they operate.

The Board operates under rules that govern the conduct of individual Directors spelt out in Directors' Code of Conduct and Ethics to enable them operate effectively and in the best interests of the Authority. The Code of Conduct requires Directors to: act honestly and in good faith; exercise duty with care and diligence; avoid and disclose conflict of interest; maintain confidentiality of information about the Authority; show commitment to and attend to the Authority's business; and respect fellow Directors and staff. During the financial year, the Board of Directors approved an amended Code of Conduct and Ethics for the staff which is being implemented.

## VI. CORPORATE GOVERNANCE STATEMENT (continued)

The Board provides leadership, enterprise, integrity and good judgment in directing the Authority and acts in the best interest of the business for continued viability and sustainability. The Board is vested with powers and authority by the Kenya Maritime Authority.

### **Risk Management and internal controls**

The Board continued to monitor the operational and financial risk aspects of the Authority's activities through the Audit Committee. The Committee and Board took into account the advice of external and internal auditors and recommendations from other technical advisors, in considering appropriate actions relevant to any operational and financial risk that the Authority may face. In addition, the Board approved various internal control procedures and continues to investigate ways of further enhancing existing risk management strategies and procedures.

### **Supply of information**

Directors had full access to management and to the advice and services of the Authority Secretary. They were constantly updated on the activities of the Authority and were provided with all the information needed to carry out their duties and responsibilities fully and effectively. In addition, directors were entitled where necessary, to seek independent professional advice concerning the affairs of the Authority.

### **Compliance with the law**

The Board as a collective entity and the individual directors are satisfied that the Authority has to the best of their knowledge complied with all applicable laws. To the knowledge of the Board, no director or employee acted or committed any offence or indulged in any unethical behaviour in the conduct of the lawfully authorized business of the Authority

## VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Authority is committed to carrying out its business and affairs in a socially responsible, sustainable and meaningful way, taking into account ethics, the environment and society at large.

The Authority seeks to make positive contributions to communities through financial support and through staff involvement. During the financial year 2013/2014 year it committed Kshs 5,948,386. to 30 projects countrywide.

In this year the Authority was involved in the following CSR activities:

### **Education**

In regard to the Authority's CSR policy, it endeavours to support educational activities, projects, programmes and initiatives aimed at sensitizing and ensuring Kenyans in all counties are sensitized and mentored on available career opportunities in the maritime sector.

The total funding channelled to education was Kshs 216,000.

### **Health**

The Authority's health initiatives are focused on improving health standards of the beneficiaries in the country. During the year, the Authority provided funding of Kshs 946,000. to 5 health projects.

### **Community Involvement**

The Authority is committed to encouraging its employee's involvement in the community and in community service, supporting projects, activities and events within the community and seeking innovative ways to perform its social responsibilities.

In the year 2013/2014, The Authority funded Empowerment projects for a total of Kshs 2,560,199.

### **Environmental protection**

The Authority is be committed to its environmental policy and shall support activities geared to prevention of pollution, protection and rehabilitation of the environment including the marine environment.

In this year environmental activities, the Authority funded 6 projects for a total of Kshs 40,000.

## VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT (continued)

### **Sponsorship of other special Maritime events.**

The Authority supports other events that may have an impact on the image of the Authority in corporate citizenship and which offer the Authority an opportunity to network with the community, stakeholders as well as to sensitize them on its mandate operations and role in the community. E.g Conferences, peace initiatives, charitable activities, public functions, fundraising events for the needy in community.

In the financial year 2013/2014 the Authority funded projects for a total of Kshs 1,500,000.

### **Sport promotion**

The Authority supports sports events including those in the maritime sector in the bid of nurturing talent among the youth as well as enabling Kenya's sportsmen/ women achieve their goals while marketing the Authority.

In the financial year 2013/2014 the Authority funded, 3 projects for a total of Kshs 300,000.

### **Gender mainstreaming**

The Authority is committed to promoting activities geared towards gender equity in various areas, which include career development among vulnerable groups including information on how to access maritime training and education in Kenya. The Authority funded projects for a total of Kshs 386,187.

## VIII. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2014 which show the state of the Authority's affairs.

### Results

The results of the entity for the year ended June 30, 2014 are set out on page 1.

### Directors

The members of the Board of Directors who served during the year are shown on page VII to X in accordance with section 6(1) of the Kenya Maritime Authority Act.

### Auditors

The Auditor General is responsible for the statutory audit of the Authority in accordance with Section 39 (1) of the Public Audit Act, CAP 412B, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

### By Order of the Board

  
CORPORATION SECRETARY

MOMBASA  
Date: 2nd February, 2015

## IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81(5) of the Public Finance Management Act, 2012 and section 14(3) of the State Corporations Act, require the Directors to prepare financial statements in respect of the 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, 2014. 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 entity; (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 Financial Public Sector Accounting Standard (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, 2014, 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 financial statements

The Authority's financial statements were approved by the Board on 20<sup>th</sup> August 2014 and signed on its behalf by:



Director



Director

Director

# REPUBLIC OF KENYA

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Fax: +254-20-311482  
E-mail: oag@oagkenya.go.ke  
Website: www.kenao.go.ke



P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KENYA MARITIME AUTHORITY FOR THE YEAR ENDED 30 JUNE 2014

#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Maritime Authority set out on pages 1 to 26, which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, statement of changes in net assets and statement of cash flows 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 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

#### Management's Responsibility for the Financial Statements

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.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

#### Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 (2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229 (7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

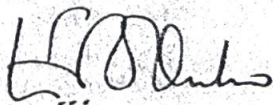
#### **Basis for Qualified Opinion**

##### **Accounting for Revenue on Rendering Service**

The revenue from exchange transactions on rendering service of Kshs 14,679,601 as reflected in the statement of financial performance includes an amount of Kshs 4,441,609 in respect of shipping agents fees. However, the shipping agents fee has been recognized on cash basis of accounting and not when the service has been rendered in line with the accrual accounting policies of the entity. Under the circumstances the completeness and accuracy of the balance of revenue from rendering services amounting to Kshs 14,679,601 for the year ended 30 June 2014 could not be confirmed.

#### **Qualified Opinion**

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Authority as at 30 June, 2014 and its of financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with Kenya Maritime Legal Notice No. 79 of 2004.



**Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**17 July 2015**



**XI. STATEMENT OF FINANCIAL PERFORMANCE**  
For the year ended 30 June 2014

		2014	2013
	Note	Kshs	Kshs
<b>Revenue from non-exchange transactions</b>			
Levies	3	692,048,848	564,543,138
Government grants	4	104,976,000	116,640,000
		<u>797,024,848</u>	<u>681,183,138</u>
<b>Revenue from exchange transactions</b>			
Rendering service	5	14,679,601	10,359,710
Finance income	6	43,518,364	32,401,691
Other income	7	7,934,237	9,675,476
		<u>66,132,202</u>	<u>52,436,877</u>
<b>Total Revenue</b>		<u><u>863,157,050</u></u>	<u><u>733,620,015</u></u>
<b>Expense</b>			
Employee costs	10	303,618,995	211,876,885
Board of directors cost	11	19,852,624	18,080,772
Water and electricity	12	3,571,148	3,519,815
Repairs and maintenance	13	6,540,361	2,892,388
General office expenditure	15	223,252,549	167,646,066
Depreciation	14	37,481,162	31,869,688
<b>Total expenses</b>		<u>594,316,839</u>	<u>435,885,613</u>
<b>Other gains</b>			
Gain on sale of assets	8	(72,450)	4,000
Gain on foreign transactions	9	512,523	88,413
<b>Surplus</b>		<u><u>269,280,283</u></u>	<u><u>297,826,815</u></u>

**XII. STATEMENT OF FINANCIAL POSITION**

As at 30 June 2014

Assets	Note	2013/2014 Kshs	2012/2013 Kshs	2011/2012 Kshs
<b>Current Assets</b>				
Cash and cash equivalents	16	894,259,070	578,539,094	330,766,000
Trade receivable from exchange	17	34,747,419	25,340,090	28,145,000
Trade receivable from non-exchange	18	54,706,772	55,683,010	9,171,000
Inventories	19	4,010,777	2,590,686	2,510,000
		<u>987,724,038</u>	<u>662,152,880</u>	<u>370,594,000</u>
<b>Non-current assets</b>				
Property, plant & equipment	21	41,054,577	49,678,632	39,424,000
Intangible assets	20	16,639,111	18,480,900	21,314,000
		<u>57,693,688</u>	<u>68,159,532</u>	<u>60,738,000</u>
<b>Total Assets</b>		<u><u>1,045,417,726</u></u>	<u><u>730,312,412</u></u>	<u><u>431,332,000</u></u>
<b>Liability</b>				
<b>Current liability</b>				
Trade and other payables from exchange	22	89,393,950	42,766,154	56,524,000
Gratuity	23	8,946,141	8,142,594	5,389,000
<b>Total liabilities</b>		<u>98,340,091</u>	<u>50,908,748</u>	<u>61,914,000</u>
<b>Net assets</b>				
Capital reserve	XIII	76,771,434	76,771,434	66,493,000
Revenue reserve	XIII	762,682,630	535,008,658	267,181,000
Revaluation reserve	XIII	7,623,571	7,623,572	5,743,000
Oil spill response mobilization fund	XIII	100,000,000	60,000,000	30,000,000
<b>Total net assets and liabilities</b>		<u><u>1,045,417,726</u></u>	<u><u>730,312,412</u></u>	<u><u>431,332,000</u></u>

The financial statements set out on page 1 to 25 were signed on behalf of the board of directors by;

NANCY W. KARIGITHU  
 DIRECTOR GENERAL



Date.....

MWALIMU DIGORE KITAMBI  
 CHAIRMAN



Date.....

**XIII. STATEMENT OF CHANGES IN NET ASSETS**

For the year ended 30 June 2004

	Capital	Revenue reserves	Revaluation reserves	Specific reserves	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
<b>Balance as at 30 June 2012</b>	<b>66,493,319</b>	<b>267,181,843</b>	<b>5,743,470</b>	<b>30,000,000</b>	<b>369,418,632</b>
Surplus for the year	-	297,826,815	-	-	297,826,815
Revaluation Reserve	-	-	1,880,101	-	1,880,101
Oil Spill Response Mobilization Fund	-	(30,000,000)	-	30,000,000	-
Donated assets	10,278,115	-	-	-	10,278,115
<b>Balance as at 30 June 2013</b>	<b>76,771,434</b>	<b>535,008,658</b>	<b>7,623,571</b>	<b>60,000,000</b>	<b>679,403,663</b>
Surplus for the year	-	269,280,283	-	-	269,280,283
Revaluation Reserve	-	-	-	-	-
Oil Spill Response Mobilization Fund	-	(40,000,000)	-	40,000,000	-
Prior year Adjustment	-	(1,606,311)	-	-	(1,606,311)
<b>Balance as at 30th June 2014</b>	<b>76,771,434</b>	<b>762,682,630</b>	<b>7,623,571</b>	<b>100,000,000</b>	<b>947,077,635</b>

NB

Prior year adjustment was due generator double booked in year 2008, The cost and the accumulated depreciation up to year 2012-13 was reversed accordingly.

#### XIV. STATEMENT OF CASHFLOWS

For the year ended 30 June 2014

Financial year		2013/2014	2012/2013
Details		Kshs	Kshs
<b>Cash flow from operating activities</b>			
Operating Surplus		269,280,283	297,826,8
Depreciation	13	37,481,162	31,869,6
Loss on disposal of non- current asset	8	72,451	40,5
Foreign exchange (gain) Loss	9	(512,523)	(88,4)
Interest income	6	(43,518,364)	(32,401,69
		<u>262,803,009</u>	<u>297,246,92</u>
<b>Working Capital changes</b>			
Decrease/(Increase) in trade receivables	17&18	(8,538,390)	(44,568,40
Increase/(Decrease) in trade payables	22	46,627,795	(13,758,0
Increase in gratuity	23	803,548	2,752,6
Increase in Inventories	19	(1,420,091)	(79,9
<b>Net cash generated from operating activities</b>		<u>37,472,862</u>	<u>(55,653,74</u>
<b>Investing activities</b>			
Purchase of property, plant and equipment	20&21	(28,961,089)	(27,185,1
Proceeds from sale of property, plant and equipment	8	119,775	12,0
Investment in fixed deposits	16	(102,000,000)	120,000,0
Interest income	6	43,518,364	32,401,6
Foreign exchange gain	9	512,523	88,4
Re allocation in PPE	20	147,234	
<b>Net cash flow (used in)/generated in investing activities</b>		<u>(86,663,193)</u>	<u>125,316,9</u>
<b>Net Increase / (Decrease) in cash and cash equivalents</b>		<u>213,612,678</u>	<u>366,910,14</u>
Cash and Cash Equivalent as at 01.July		375,864,598	8,954,4
<b>Cash and Cash Equivalent as at 30 June</b>		<u>589,477,276</u>	<u>375,864,59</u>

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

	Original budget	Adjustments	Final budget	Actual on comparable basis	Variance
Revenue					
MS levy	632,215,000	-112,785,000	745,000,000	692,048,848	-52,951,152
Survey, shipping agency fee & others	16,000,000	-	16,000,000	22,624,163	6,624,163
Interest income	10,000,000	-20,000,000	30,000,000	43,624,320	13,624,320
Government grants	104,976,000	-	104,976,000	104,976,000	
<b>Total income</b>	<b>763,191,000</b>	<b>-132,785,000</b>	<b>895,976,000</b>	<b>863,273,331</b>	<b>-32,702,669</b>

Expense		-			
Basic salary	118,300,000	-43,685,000	161,985,000	165,221,600	-3,236,600
Other allowances	3,780,000	-	3,780,000	3,135,500	644,500
Acting allowance	840,000		840,000	749,625	90,375
Extraneous allowance	180,000		180,000	156,000	24,000
Non-practising allowance	720,000	-	720,000	618,000	102,000
Entertainment allowance	480,000	-	480,000	480,000	
House allowance	39,000	-26,961,000	27,000,000	25,446,360	1,553,640
Leave allowance	2,960	-3,197,040	3,200,000	3,188,337	11,663
Commuter allowance	24,700	-17,175,300	17,200,000	15,684,834	1,515,166
Staff training costs	67,000,000	-	67,000,000	67,008,614	-8,614
Induction and orientation	600,000	-	600,000	68,700	531,300
Recruitment -new staff	600,000	300,000	300,000	108,675	491,325
Pension expenditure	23,660,000	-	23,660,000	21,752,750	1,907,250
Communication cost	9,500,000	1,500,000	8,000,000	6,230,622	1,769,378
Airfare-directors	8,860,000	-	8,860,000	4,191,752	4,668,248
Board expense	20,760,000	-960,000	21,720,000	15,660,872	6,059,128
Water	800,000	-	800,000	544,798	255,202
Electricity	4,500,000	1,500,000	3,000,000	3,026,350	-26,350
Uniform & protective clothing	2,000,000	-	2,000,000	691,564	1,308,436
Printing & stationary	7,000,000	1,400,000	5,600,000	2,915,349	2,684,651
Entertainment	1,300,000	-	1,300,000	942,810	357,190
Entertainment third party	1,000,000	-	1,000,000	654,914	345,086
Cleaning service	3,000,000	-	3,000,000	2,751,348	248,652
Office incidentals	4,000,000	170,000	3,830,000	3,232,669	597,331
Other general expense	170,000		170,000	188,915	-18,915
Motor vehicles maintenance	575,000		575,000	618,838	-43,838

Kenya Maritime Authority  
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Fuel	1,700,000	-	1,700,000	1,746,987	-46,9
Duty travel (domestic)	20,700,000	2,000,000	18,700,000	14,479,133	4,220,8
Duty travel (foreign)	20,700,000	2,700,000	18,000,000	12,166,779	5,833,2
Hire of transport-taxi	7,200,000	700,000	6,500,000	6,568,031	-68,0
Bank charges	500,000	-	500,000	335,318	164,6
Conference and seminars	40,000,000	13,000,000	27,000,000	23,398,369	3,601,6
Library expenses	1,150,000	300,000	850,000	612,707	237,2
Publicity & awareness	42,200,000	8,000,000	34,200,000	34,978,692	-778,6
Medical & group cover	17,000,000	-	17,000,000	14,746,230	2,253,7
Corporate social responsibility	6,000,000	-	6,000,000	5,948,387	51,6
Community support HIV & AIDS	800,000	-	800,000	390,453	409,5
Insurance expense	2,300,000	500,000	1,800,000	1,593,825	206,1
Comp services & maintenance	1,876,000	-	1,876,000	802,121	1,073,8
Leasehold-maintenance	2,403,994	-	2,403,994	2,141,151	262,8
Maintenance-furniture,	202,998	-	202,998	202,482	5
Generator maintenance	105,000	-	105,000	103,542	1,4
Other maintenance -general	1,640,004	-1,000,000	2,640,004	2,507,883	132,1
Rent & rates	7,000,000	-	7,000,000	6,314,114	685,8
Club fees	90,000	-	90,000	-	
Advertising	4,500,000	-1,000,000	5,500,000	5,671,333	-171,3
Airfare -staff	18,500,000	-8,000,000	26,500,000	28,629,056	-2,129,0
Audit fee	1,000,000	-	1,000,000	1,140,480	-140,4
Consultancy	7,000,000	2,000,000	5,000,000	6,383,130	-1,383,1
Annual subscriptions	2,500,000	500,000	2,000,000	1,243,068	756,9
Legal fee	6,500,000	3,000,000	3,500,000	-	
Security services	4,000,000	500,000	3,500,000	3,556,115	-56,1
Marine safety & env. protection	7,000,000	4,000,000	3,000,000	3,098,494	-98,4
Research & development	43,600,000	-7,500,000	51,100,000	32,832,389	18,267,6
Office equipment maintenance	248,004	-	248,004	164,345	83,6
Depreciation	32,000,000	-8,860,000	40,860,000	37,481,162	3,378,8
<b>Total expenditure</b>	<b>580,107,660</b>	<b>-76,268,340</b>	<b>656,376,000</b>	<b>594,505,570</b>	<b>58,280,43</b>
<b>Surplus for the period.</b>	<b>183,083,340</b>	<b>-56,516,660</b>	<b>239,600,000</b>	<b>268,767,760</b>	<b>90,983,09</b>

## **XVI. NOTES TO THE FINANCIAL STATEMENTS**

### **1. Statement of compliance and basis of preparation – IPSAS 1**

The entity'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 entity. The accounting policies have been consistently applied to all the years presented. Previously the financial statement were prepared in line with IFRS. There will no significant change to the financial performance and financial position since IFRS and IPSAS are based on accrual basis. There will be slight change in the classification of items in line with guideline provide by the Accounting Standard Board.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

### **2. Summary of significant accounting policies**

#### **a) Revenue recognition**

##### **i) Revenue from non-exchange transactions – IPSAS 23**

#### **Fees/Levy**

The entity recognizes revenues from fee/levy when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

#### **Transfers from the Government**

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 entity and can be measured reliably.

## 2. Summary of significant accounting policies (continued)

### Revenue from exchange transactions – IPSAS 9

#### *Rendering of services*

The entity recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably.

Inspection fee is recognized only after the vessel is compliant with all the safety requirement and the related cost can reliably be measured. Where the inspection outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

#### *Interest income*

Interest income is accrued using the negotiated interest rate. The negotiated interest rate estimated future cash receipts through the expected life of the financial asset to that asset's net applicable taxes (withholding tax). The method applies this yield to the principal outstanding to determine interest income each period.

#### *Rental income*

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

### b) Budget information – IPSAS 24

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

### c) Property, plant and equipment – IPSAS 17

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 entity 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 using independent external valuers.

## 2. Summary of significant accounting policies (continued)

### d) Intangible assets – IPSAS 31

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite

### e) Research and development costs

- The Entity expenses research costs as incurred. Development costs on an individual project are recognized when incurred and expensed in relevant period.

### f) Financial instruments – IPSAS 29

#### *Financial assets*

#### **Initial recognition and measurement**

Financial assets within the scope of IPSAS 29 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 Entity determines the classification of its financial assets at initial recognition.

#### *Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

#### *Held-to-maturity*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention and ability to hold it to maturity. The losses arising from impairment are recognized in surplus or deficit.

#### **Impairment of financial assets**

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or a entity of financial assets is impaired. A financial asset or a entity 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

## 2. Summary of significant accounting policies (continued)

asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

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

### g) Inventories – IPSAS 12

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Entity.

### h) Provisions – IPSAS 19

Provisions are recognized when the Entity 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 Entity 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.

## **2. Summary of significant accounting policies (continued)**

### ***Contingent liabilities***

The Entity 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 Entity 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 Entity 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 Entity creates and maintains reserves in terms of specific requirements. Authority has got two reserve in place; Oil spill and mobilization fund for emergency SAR service. The two reserve are meant to cushion against any emergency that might arise due to oil spill in our Ocean and inland waters. The Authority has policy to gradually build this reserves annually. All held in Kenya Commercial bank savings account.

#### **k) Changes in accounting policies and estimates – IPSAS 3**

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.

#### **l) Employee benefits – IPSAS 25**

##### **Retirement benefit plans**

The Authority provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (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.

## **2. Summary of significant accounting policies (continued)**

The scheme is being administered by Alexander Forbes Retirement Funds (Pension and Sections)

- Rate of contribution is;- Self 7.5% of basic pay
- Employer 15% of basic pay

### **m) Foreign currency transactions – IPSAS 4**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the weekly CBK mean exchange rate. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

### **n) Related parties – IPSAS 20**

The Authority regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the directors, senior managers. During the year the following were the related party closing balance;

- Kenya ports authority Ksh.755, 984 due to the rent outstanding.
- Director General Ksh.368, 000 as a salary advance.

### **o) 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 amount 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**

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation. Three successive year have been included year 2011-12, 2012-13 and 2013-14.

## 2. Summary of significant accounting policies (continued)

### q) Significant judgments and sources of estimation uncertainty – IPSAS 1

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 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 Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

#### *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 Entity
- 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

Fixed Assets are stated at cost or valuation less accumulated depreciation/amortisation.

Depreciation and amortisation is calculated on a straight line method.

The Annual depreciation/amortisation rates as stated below:-

i.	Motor Vehicles	20%
ii.	Computers and IT Equipment	33.3%
iii.	Furniture & Equipment	12.5%
iv.	Software	33.3%

### r) Subsequent events – IPSAS 14

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, 2014.

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<b>3. Levies</b>	<b>2013/2014</b>	<b>2012/2013</b>
	Kshs.	Kshs.
Merchant shipping levy	706,172,294	576,064,426
Collection cost (KRA commission)	<u>(14,123,446)</u>	<u>11,521,288</u>
<b>Total</b>	<b><u>692,048,848</u></b>	<b><u>564,543,138.00</u></b>

**4. Government grants**

Ministry of transport and infrastructure

Date	Date	Date	Date
		07/09/2012	32,400,000
20/09/2013	27,494,000	29/11/2012	32,400,000
29/01/2014	51,238,000	31/01/2013	25,920,000
14/05/2014	<u>26,244,000</u>	24/04/2013	<u>25,920,000</u>
	<b><u>104,976,000</u></b>		<b><u>116,640,000</u></b>

**5. Rendering of service**

Boat survey fees	10,237,993	5,625,769
Shipping agents fees	<u>4,441,609</u>	<u>4,733,941</u>
<b>Total</b>	<b><u>14,679,601</u></b>	<b><u>10,359,710</u></b>

**6. Finance income-External investment**

Interest income from fixed deposits	<u>43,518,364</u>	<u>32,401,691</u>
<b>Total</b>	<b><u>43,518,364</u></b>	<b><u>32,401,691</u></b>

**7. Other income**

Agency fee	3,751,138	2,910,520
Rental	519,330	511,250
Sale of books	927,353	684,165
Sale of tender document	844,000	189,000
Others	<u>1,892,415</u>	<u>5,380,542</u>
<b>Total</b>	<b><u>7,934,237</u></b>	<b><u>9,675,476</u></b>

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8. Gain on sale of assets	2013/2014	2012/2013
	Kshs.	Kshs.
Cost of the asset	2,442,667	31,516
Accumulated depreciation	<u>(2,250,258)</u>	<u>(23,516)</u>
Net book value	<u>192,409</u>	<u>8,000</u>
Proceeds	<u>119,958</u>	<u>4,000</u>
(Loss)/Gain on disposal	<u>(72,451)</u>	<u>4,000</u>
<b>9. Foreign Currency Exchange</b>		
Gain on foreign exchange transaction	17,516	88,413
Unrealized gain on fair value of investment	<u>495,007</u>	<u>-</u>
	<u>512,523</u>	<u>88,413</u>

**10. Employee cost**

Basic Salaries	151,709,436	104,466,759
House Allowances	25,446,360	22,851,216
Other Allowances	4,659,125	3,486,634
Leave Allowances	3,188,337	1,719,399
Commuter Allowances	15,684,834	13,943,325
Staff Wages	13,512,164	4,987,787
Entertainment	480,000	480,000
Staff Training	67,008,614	44,127,229
Induction and Orientation	68,700	81,150
Pension Expenditure	21,752,750	15,230,629
Recruitment	108,675	502,757
<b>Total</b>	<u>303,618,995</u>	<u>211,876,885</u>

**11. Board of directors costs**

Airfare	4,191,752	2,530,413
Allowance and other expense	14,724,098	14,590,359
Chairman's Honoraria	936,774	960,000
<b>Total</b>	<u>19,852,624</u>	<u>18,080,772</u>

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<b>12. Purchase of water and electricity</b>	<b><u>2013/2014</u></b>	<b><u>2012/2013</u></b>
	<b><u>Kshs</u></b>	<b><u>kshs</u></b>
Water	544,798	551,572
Electricity	3,026,350	2,968,243
<b>TOTAL</b>	<b><u>3,571,148</u></b>	<b><u>3,519,815</u></b>
<b>13. Repairs and maintenance</b>		
Motor vehicle	618,838	1,032,240
Computer	802,121	1,062,988
Building	5,119,403	797,160
<b>Total</b>	<b><u>6,540,361</u></b>	<b><u>2,892,388</u></b>
<b>14. Depreciation and amortization expense</b>		
Property , plant and equipment	21,145,334	18,649,371
Intangible assets	<u>16,335,828</u>	<u>13,220,317</u>
<b>Total Depreciation and amortization</b>	<b><u><u>37,481,162</u></u></b>	<b><u><u>31,869,688</u></u></b>

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<b>15 General Expenditure</b>	<u>2013/2014</u>	<u>2012/2013</u>
	<u>Kshs.</u>	<u>Kshs.</u>
Domestic and Overseas Air Travel	28,629,056	14,412,085
Duty Travel Allowances - Domestic and Foreign	26,645,912	28,671,469
Conference and Seminars	23,398,369	9,583,096
Advertising	5,671,333	3,319,734
Publicity & Awareness	34,978,692	20,109,662
Medical and Group Accident Cover	14,746,229	16,198,928
Office Rent	6,314,114	5,716,384
HIV and AIDs related Awareness	390,453	533,951
Transport Hire	6,568,031	5,159,363
Fuel Costs	1,746,987	1,044,634
Library Expenses	612,707	509,097
Club Fees	-	77,500
Research and Development	32,832,389	26,247,845
Community Support	5,948,386	2,794,296
Bank Charges	335,318	269,659
Security Services	3,556,115	2,662,420
Audit Fees	1,140,480	1,000,000
Professional & Consultancy Fees	7,626,298	6,760,168
Insurance	1,593,825	227,563
Legal Fees	-	660,080
Marine Safety & Env. Protection	3,098,494	4,479,760
Office Incidentals	3,232,854	2,822,628
Uniform and Clothing	691,564	623,438
Office Carpet and Curtain Cleaning	2,751,348	2,281,723
Entertainment	1,597,724	770,371
Printing and Stationery	2,915,349	3,687,453
Other Admin Expense	0	40,471
Communication Costs	6,230,522	6,982,231
<b>Total</b>	<b><u>223,252,549</u></b>	<b><u>167,646,066</u></b>

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16. Cash and cash equivalents	2013/2014 Kshs	2012/2013 Kshs
Bank	589,477,276	375,864,598
Outstanding imprest	2,781,794	2,674,496
Short term deposits	302,000,000	200,000,000
<b>Total</b>	<b><u>894,259,070</u></b>	<b><u>578,539,094</u></b>
17. Trade Receivable from exchange transaction		
Trade	10,208,541	13,705,648
Interest receivable	4,838,154	326,066
Deposits and prepayments	19,135,144	10,972,145
Others non trade	565,580	336,231
<b>Total</b>	<b><u>34,747,419</u></b>	<b><u>25,340,090</u></b>
18. Receivable from non-exchange transaction		
MS Levy fees	54,338,772	55,574,010
Directors	368,000	109,000
<b>Total</b>	<b><u>54,706,772</u></b>	<b><u>55,683,010</u></b>
19. Inventories		
General supplies	2,932,121	2,590,686
Publications & library books	1,078,656	-
<b>Total</b>	<b><u>4,010,777</u></b>	<b><u>2,590,686</u></b>

**20. Intangible asset**

	<u>Intangible Assets</u>	<u>WIP</u>	<u>Total</u>
	<u>Kshs</u>	<u>Kshs</u>	<u>Kshs</u>
As at 30 June 2013	40,398,285	-	40,398,285
Additions	9,082,929	5,411,110	14,494,039
<b>As at 30 June 2014</b>	<b>49,481,214</b>	<b>5,411,110</b>	<b>54,892,324</b>
As at 30 June 2013	21,917,385		21,917,385
Charge for the year	16,335,828		16,335,828
<b>As at 30 June 2014</b>	<b>38,253,213</b>		<b>38,253,213</b>
<b>NBV as at 30 June 2014</b>	<b>11,228,001</b>	<b>5,411,110</b>	<b>16,639,111</b>
<b>NBV as at 30 June 2013</b>	<b>18,480,900</b>	<b>-</b>	<b>18,480,900</b>

ASSET DESCRIPTION	Purpose	ACQUISITION VALUE
Ms Office2013 Proplus-100 Lic	Word,Access,Excel and PowerPoint	3,200,000.00
Alcatel Lucent IVR-Software	Upgrade MRCC PABX to be able to receive 110 Emergency calls	616,529.37
EDMS	Facilitate document management	5,266,400
Work In Progress		5,411,110.00
<b>TOTAL</b>		<b>14,494,039.37</b>

**21. Property , Plant and Equipment**

Assets	Motor vehicles	Computers & IT Equipment	Furniture & Equipment Restated	Total
Cost or Valuation	Kshs	Kshs	Kshs	Kshs
<b>As at 1 July 2012</b>	<b>10,984,860</b>	<b>18,958,646</b>	<b>55,625,806</b>	<b>85,569,312</b>
Revaluation adjustment	(2,998,560)	-	(84,043)	(3,082,603)
Additions	9,021,018	9,827,424	2,078,351	20,926,793
Donation	-	5,994,858	154,796	6,149,654
Valuation	1,880,000	-	-	1,880,000
<b>As at 30 June 2013</b>	<b>18,887,318</b>	<b>34,780,928</b>	<b>57,774,910</b>	<b>111,443,156</b>
Disposal	-	(2,030,722)	(411,945)	(2,442,667)
Additions	-	12,019,650	2,447,400	14,467,050
Re allocation	-	(120,221)	(4,222,906)	(4,343,127)
<b>As at 30 June 2014</b>	<b>18,887,318</b>	<b>44,649,635</b>	<b>55,587,459</b>	<b>119,124,412</b>
<b>Depreciation and impairment</b>				
<b>As at 1 July 2012</b>	<b>7,242,340</b>	<b>15,499,812</b>	<b>23,403,078</b>	<b>46,145,230</b>
Disposal	-	-	(31,516)	(31,516)
Adjustment	(2,998,560)	-	-	(2,998,560)
Charge for the year	3,777,464	7,571,117	7,300,790	18,649,371
<b>As at 30 June 2013</b>	<b>8,021,244</b>	<b>23,070,929</b>	<b>30,672,352</b>	<b>61,764,525</b>
Disposal	-	(1,989,056)	(261,202)	(2,250,258)
Charge for the year	3,777,464	10,352,455	7,015,415	21,145,334
Adjustments			(2,589,766)	(2,589,766)
<b>As at 30 June 2014</b>	<b>11,798,708</b>	<b>31,434,328</b>	<b>34,836,799</b>	<b>78,069,835</b>
<b>Net book values</b>				
<b>As at 30 June 2014</b>	<b>7,088,610</b>	<b>13,215,307</b>	<b>20,750,661</b>	<b>41,054,577</b>
<b>As at 30 June 2013</b>	<b>10,866,074</b>	<b>11,709,999</b>	<b>27,102,559</b>	<b>49,678,632</b>

**22. Trade and other payables from exchange transaction**

	<u>2013/2014</u>	<u>2012/2013</u>
	<u>Kshs.</u>	<u>Kshs.</u>
Trade Payables	23,415,934	27,580,007
Audit Fees Payable	1,000,000	878,000
Ms levy refund	40,009,840	-
Staff payables	616,860	138,969
Statutory	12,253,512	109,470
Other payable	12,097,804	14,059,708
<b>Total</b>	<u><u>89,393,950</u></u>	<u><u>42,766,154</u></u>

**23. Gratuity**

As at 1 July	8,142,594	5,389,896
Charge for the year	7,819,603	5,353,087
payment during the year	<u>(7,016,055)</u>	<u>(2,600,389)</u>
<b>As at 30 June 2014</b>	<u><u>8,946,142</u></u>	<u><u>8,142,594</u></u>

## 24 FINANCIAL INSTRUMENTS

### Capital risk management

The company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the company consists of cash and cash equivalents, share capital and retained earnings.

### Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 1 to the financial statements.

	2014 Kshs	2013 Kshs
<b>Categories of financial instruments</b>		
<b>Financial assets</b>		
Receivables including cash and cash equivalents	904,467,611	592,244,742
	=====	=====
<b>Financial liabilities</b>		
Payables	23,415,934	27,580,007
	=====	=====

### Financial risk management objectives

The company's activities expose it to a variety of financial risks including credit and liquidity risks, effects of changes in foreign currency and interest rates and changes in market prices of the company's services. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is extended to customers with an established credit history.

### Foreign currency risk management

The company undertakes certain transactions denominated in foreign currencies. Therefore, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters.

The carrying amounts of the company's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

24 FINANCIAL INSTRUMENTS (Continued)

Foreign currency risk management (Continued)

	2014 Kshs	2013 Kshs
<b>Assets</b>		
<i>Trade and other receivables</i>		
US Dollars	10,208,541	10,705,648
	=====	=====
<i>Due from related companies</i>		
US Dollars	0	0
	=====	=====
<i>Bank and cash balances</i>		
US Dollars	26,783,578	7,228,868
	=====	=====
<b>Liabilities</b>		
<i>Bank overdraft</i>		
US Dollars	0	0
	=====	=====
<i>Due to related companies</i>		
US Dollars	0	0
	=====	=====

10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

At 30 June 2014, if the Kenya Shilling had weakened/strengthened by 10% against the relevant foreign currencies with all other variables held constant, the impact on pre tax profit for the period would have been lower /higher by Kshs 3,699,211(2013 : Kshs 1,533,939) .

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the period end exposure does not reflect the exposure during the period.

**Credit risk management**

Credit risk refers to the risk that customers will default on its contractual obligations resulting in financial loss to the company.

The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on the company policy of providing for debts that are over ten months old.

The credit risk on trade receivables is limited because the customers are known customers with high credit ratings.

**24 FINANCIAL INSTRUMENTS (Continued)**

**Credit risk management (Continued)**

The credit risk on liquid funds with financial institutions is also low, because the counter parties are banks with high credit-ratings.

The company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

*Trade receivables*

The company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The company does not have significant credit risk exposure to any single counterparty. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

The amount that best represents the company's maximum exposure to credit as at 30 June 2014 and 30 June 2013 is made up as follows

**2014**

	<b>Fully Performing Kshs</b>	<b>Past due Kshs</b>	<b>Impaired Kshs</b>
Cash and cash equivalents	894,259,070	-	-
Trade receivables	10,208,541	-	-
	904,467,611	-	-
	=====	=====	===

**2013**

	<b>Fully performing Kshs</b>	<b>Past due Kshs</b>	<b>Impaired Kshs</b>
Cash and cash equivalents	575,864,598	-	-
Trade receivables	13,705,648	-	-
	589,570,246	-	-
	=====	=====	===

Cash and cash equivalents are fully performing.

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low.

The debt that is overdue is not impaired and continues to be paid.

24 FINANCIAL INSTRUMENTS (Continued)

**Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the company's short and medium-term funding and liquidity management requirements. The company manages liquidity risk by maintaining banking facilities through continuous monitoring of forecast and actual cash flows. The company can also borrow from its ultimate parent company in the short term further reducing its liquidity risk.

The table below analyses the company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

2014

	Less than 1 month Sh'000	Between 1-3 months Sh'000	3 months to 1 period Sh'000	1-5 periods Sh'000	Total Sh'000
Trade payables	19,561,864	127,818	244,056	3,482,196	23,415,934
	----- 19,561,864 =====	----- 127,818 =====	----- 244,056 =====	----- 3,482,196 =====	----- 23,415,934 =====

2013

	Less than 1 month Sh'000	Between 1-3 months Sh'000	3 months to 1 period Sh'000	1-5 periods Sh'000	Total Sh'000
Trade payables	20,098,007	1,586,528	994,690	4,900,049	27,580,007
Due to related companies	-	-	-	-	-
Due to a director	-	-	-	-	-
Borrowings – bank overdraft	-	-	-	-	-
	----- 20,098,007 =====	----- 1,586,528 =====	----- 994,690 =====	----- 4,900,049 =====	----- 27,580,007 =====

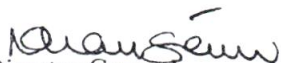
**XVII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**


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.

Referen ce No. on the external audit Report	Issue/ Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved/ Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)

**Guidance Notes:**

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the “Issue/Observation” and “management comments”, required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- (iv) Indicate the status of “Resolved” or “Not Resolved” by the date of submitting this report to National Treasury.

  
 Director General  
 Date.....

  
 Chairman of the Board  
 Date.....