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REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF KENYA MARITIME AUTHORITY

FOR THE YEAR ENDED 30 JUNE 2018

OFFICE OF THE AUDITOR-GENERAL
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KENYA MARITIME AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING JUNE 30, 2018

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

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I. KEY AUTHORITY INFORMATION AND MANAGEMENT

(a) Background Information

Kenya Maritime Authority (KMA) was established on 21st June, 2004 vide Legal Notice Number 79 of 2004. The Board is in charge of giving strategic direction and the Director General is charged 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. Our Vision is to be a "*leading maritime administration transforming Kenya into a globally competitive nation*" and the 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

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2018 and who had direct fiduciary responsibility were:

No.	DESIGNATION	NAME
1	Ag. Director General	Mr. George N. Macgoye, EBS, OGW
2	Ag. Head of Maritime Safety	Mr. Dave Muli
3	Corporation Secretary & Head of Legal Services	Ms. Jane F. Otieno
4	Head of Commercial Shipping	Mr. John Omingo
5.	Head of Corporate Support Services	Mr. Cosmas Cherop

(e) Fiduciary Oversight Arrangements

Finance and Human Resource Committee

The committee's activities include;

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 policies consistent with the changing needs of KMA.

Technical and Operations Committee

The committee's activities include;

a) Setting targets and negotiating on performance contracts;
b) Reviewing and reporting on performance contract obligations to the Board;
c) Ensuring that KMA's maritime safety and security obligations are effectively discharged;
d) Facilitating, monitoring and overseeing the implementation of the maritime education and training curriculum in various institutions;
e) Enhancing the legal framework;

f) Setting strategic direction for KMA and monitoring the implementation of the strategic plan;

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

h) Overseeing the development, preparation and implementation of corporate communication policies and recommending management publicity programmes to the Board; and

i) Providing guidance on Corporate Social Responsibility activities and monitoring their implementation.

Audit Committee

The committee's activities include;

(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) Provides oversight over governance, risk management and control processes;

(c) Review the legal and regulatory matters that may have a material impact on the financial statements, related compliance policies, and reports received from consultants.

(d) Give guidelines on risk management.

Governance and Integrity Committee

The committee's activities include;

(a) to enhance corporate affairs and communication within and outside KMA;

(b) to monitor KMA's compliance with Corporate Governance principles;

(c) to monitor and have an oversight role in KMA's Corporate Social Responsibility activities;

(d) to safeguard the image of KMA by ensuring that ethical governance is upheld at all times;

(e) assist in ensuring that the law is complied with;

(f) ensuring good governance for the KMA Board.

(a) Kenya Maritime Authority Headquarters

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

(b) Contacts

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

(c) 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.

iv. Kenya Commercial Bank
P.O Box 4087
Lamu.

v. Kenya Commercial Bank
P.O Box 4021
Lodwar.

vi. 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
GOP 00100
Nairobi, Kenya

(e) 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

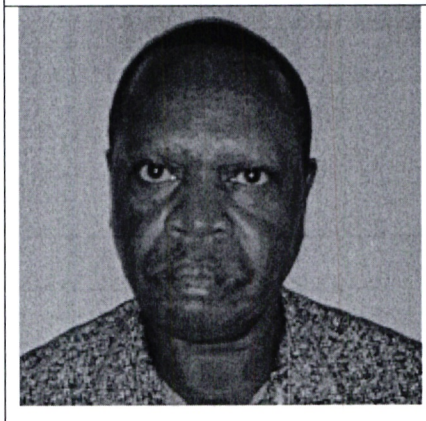
The Directors who served during the period under review are:

George N. Macgoye	Ag. Director General
Dr. Kamau Thugge	Principal Secretary, National Treasury
Nancy W. Karigithu, CBS	Principal Secretary, State Department for Shipping and Maritime Affairs
Prof. Paul Maringa	Principal Secretary, State Department for Transport
Paul Kihara Kariuki	Attorney General
Shem Nyakutu	Alternate to Cabinet Secretary, The National Treasury
Julius Segera	Alternate to Principal Secretary Transport
Charles Mutinda	Alternate to the Attorney General
Mr.Heszbourne O Mackobongo	Alternate to the Cabinet Secretary, The National Treasury
Mr.Francis Muraya	Alternate to the Principal Secretary, State Department for Shipping and Maritime Affairs
Anthony Maritim Rob, CBS, EBS	Term Expired 17th April 2018
Ismail Said Mboya	Term Expired 17th April 2018
Prof. Eric Chenje Mwachiro	Term Expired 17th April 2018
Malika Omar	Tentative Term Expiry 2nd October 2018
Agnes W. Ndwiga, HSC	Tentative Term Expiry 5th January 2019

 Ms. Agnes W. Ndwiga, HSC, Director Masters (MSC) in Development Finance (Reading University, UK), Bachelor of Commerce (University of Nairobi). Currently pursuing a PHD in Development studies. 20years experience in the finance industry.	Ms. Ndwiga, born in 1962, is an Independent Board member at Kenya Maritime Authority. Ms. Ndwiga has 20years experience in the Finance Sector with extensive business development skills and enterprise in structured products and solution delivery. She also holds expert negotiating and influencing skills mainly in the corporate, public and government sectors. Ms. Ndwiga's extensive work experience include 7 years with Barclays Bank as a Corporate Analyst, Assistant Branch Manager and Product Manager. She also holds 3 years' experience with ABN AMRO Bank as a Senior Relationship Manager (Business Development & Global Transaction Services) and 3 years of experience as Business Unit Manager with Exxon Mobil (K) Ltd. Ms. Ndwiga has been working with Equity bank for over 20 years previously as a Senior Manager, Business Growth & Development and is currently the General Manager of Corporate and Public Sector Banking with Equity Bank. Ms. Ndwiga is also a Board Member of the Kamama High School, she is a Convener of financial inclusion and access in Embu County and a Financial Advisor of the Embu Development Forum. MS. Ndwiga is a member of the East Africa Enterprise Network (EASEN), Kenya Women Financial Trust and Embu Professionals Development Forum (EDF).
 Ms. Malika Omar Director	Ms. Malika Omar is an Independent Board of Directors Kenya Maritime Authority. Born in 1976, Ms. Omar is a dynamic and highly accomplished Shipping and Trade Finance Professional with over 13 years of experience with proficiency in shipping procedures, international economic and other international trade areas both in the Public and Private Sectors. Ms. Omar has 10 years working experience at Dubai Bank (K) Ltd as an Assistant to trade Finance Officer and advanced to the role of Trade Finance Officer and later as head of Operations. Currently Ms. Omar is the Managing Director of the Modern Maritime Services Ltd.

Bachelor of Science in International Business Administration (United States International University Africa) Nairobi Kenya. Diploma and Advanced Diploma in Shipping (Institute of Chartered Shipbrokers- London UK). Advanced Diploma in Business Information Systems (Association of Business Executives- London UK).	
 Mr. Francis Mubia Muraya Alternate Director Higher Diploma Human Resource Management KIM, B.ED (Botany & Zoology) Kenyatta University, and Masters of Education in Policy & Leadership Moi University	Mr Francis Mubia Muraya is an Alternate Board of Directors in Kenya Maritime Authority for the Principal Secretary State Department for Shipping and Maritime Affairs – Nancy N. Karigithu, CBS. Mr. Muraya has vast experience working in the Public Sector and is currently the Deputy Director and Head of Human Resource Management at the State Department for Shipping and Maritime Affairs
 Mr. Hesbourne Obongo Alternate Director BSc Mathematics and Computer Science Kenyatta University, MSc Statistics University of Nairobi an on-going candidate for PhD in Project Management at the Jomo Kenyatta University of Agriculture and Technology (JKUAT).	Mr Hezbourne Obongo is an Alternate Board of Directors in Kenya Maritime Authority for the Cabinet Secretary National Treasury and Planning – Henry K. Rotich, EGH. Born in 1969 Mr. Obongo has experience working both in the Public and Private Sector. He has a good understanding of budgeting and financial management procedures particularly the Government of Kenya procedures and development partners' procedures. Mr. Obongo currently works at the National Treasury and was appointed as an alternate to the Cabinet Secretary on 16th April, 2018.

 Mr Charles Mutinda Alternate Director Master of Laws degree from the University of Nairobi (Ongoing), Bachelor of Laws (LL.B) from University of Nairobi.	Mr Charles Mutinda is an Alternate Board of Directors in Kenya Maritime Authority for the Attorney General Paul Kihara Born in 1976 Mr. Mutinda has over 15 years of experience working both in the Public and Private Legal Sector. He started as an Associate Advocate at B. M. Musau & Co. Advocates. He has worked in different capacities in the Office of the Attorney General as the Head of General Civil Law and Claims Section, Head of Land and Environment Section, Regional Head of the Office of the Attorney General-Mombasa, and currently the Head of Constitutional petitions Enforcement and interpretation section and the Ag. Deputy Head Civil Litigation Department and Head of Petitions Section. Mr. Mutinda is currently at the Office of the Attorney General & Department of Justice as a Deputy Chief Litigation Counsel. In his tenure at the Attorney General's office, he has been appointed to serve in various Tribunals, Working Groups and Taskforce Commissions. Mr Mutinda also successfully defended the Government in high level litigation and brings to the Authority a vast wealth of legal knowledge and experience.
 Mr. George N. Macgoye, EBS, OGW **Ag. Director General** Bachelor of Arts – University of Nairobi Upper Class (BA Hons), Pursuing Master of Arts - University of Nairobi.	Date of Birth: 18th May, 1963 30 years' work experience Appointed by the Board as the Ag. Director General KMA on 9th March, 2018. Mr Macgoye has undertaken Strategic Leadership, Advanced Public Administration and various courses in Kenya School of Government, he is a Fellow of the University of Birmingham, Rule of Law and he has also done various Police and Military Courses in Kenya and Abroad. He started his career in Field Administration of Kenya Government, Police and Prisons Services and Rose to Deputy Commander of both Services. He has served as the Director Administration at State Department of Public Works at the Ministry of Transport, Infrastructure, Housing and Urban

	development before Joining KMA as the Director General in March, 2018
  Mr. Ismail Said Mboya, Director **(Term Expired)** MSc. Degree in Maritime studies World Maritime University, Malmo Sweden. Post graduate diploma in Port and Shipping Administration from University of Wales Institute of Science & Technology – UWIST-(UK). Diploma in Maritime Studies from Bandari College, Diploma in Port Management and Administration from State University (RUCA) Antwerp (in cooperation with APEC) –Belgium and Diploma in Port Management and Stevedoring from Kipevu Ports 7 Cargo Handling Training School.	Mr Ismail Said Mboya, was an Independent Member of the Kenya Maritime Authority Board of Directors was born in 1946 and has been in the Maritime Sector for 47 years. Mr Mboya has 3 years working managerial experience form Inland Container Deport manager (ICD- Kisumu) and Regional Logistics Center LTD and Senior Management Consultant (ICD-Mombasa). Mr Mboya has 12 years of experience working at the Port at water front- stevedoring (Ports and Shipping) at Kalinin Port, Mombasa. He has had over 20 years teaching experience as a trainer, lecturer, Course Director and Curricula developer in; Bandari Collage- Mombasa Kenya, Makerere University- Kampala Uganda, Jomo Kenyatta University of Agriculture and Technology (JKUAT) – Mombasa Kenya, KESRA Customs-Mombasa Kenya and Maritime Institute- Mombasa Kenya. Mr Mboya's term in the the KMA Board Expired.
 Major General (Rtd) Anthony Maritim Rob, CBS, EBS, ndc (K) dip. NWC (USA) Director	Major General (Rtd) Anthony Maritim Rob, CBS, EBS, ndc (K) dip. NWC (USA) was an Independent Director in the Kenya Maritime Authority Board. He was born in 1954 and has over 40 years of experience in the Military, Naval and Maritime Sectors. In 1976, he trained as a Cadet at the Armed Forces Training Collage Lanet- Nakuru Kenya (1976). He received training as a Midshipman Naval War at the Naval Officer Cadet School Rhode Island- New England USA (1977). He also holds a certificate in Maritime Engineering form India Naval Ship Lonava Shivaji Maharashtra (1982). He also holds a Diploma NWC (NSC) rom Naval War College

(Term Expired) Diploma in international studies, University of Nairobi. Pursuing Bachelor of Laws (LL.B) degree, University of Nairobi. Diploma NWC (NSC) From Naval War College (USA).	Newport Rhode Island - New England USA (1991). He received his diploma on National Security and Strategic Studies form the National Defense Collage, Kenya (1999) and he is authorized to append transfix NDC (K). Major Gen (Rtd) Rob holds a Diploma in International Studies from University of Nairobi (2004). He is currently pursuing a Bachelor of Laws (LL.B) degree from University of Nairobi. In 1994 Major Gen (Rtd) Rob in the rank of Lt Col as CO Tech in the Kenya Navy Base, he was part of the Kenya Navy Ports Authority Technical team that rescued the saviors and removed the dead from the sea bed at Mtongwe during the Mtongwe Ferry Disaster in 1994. In 2001 in the rank of Brigadier and as a Commander Naval logistics, He was in charge of the Salvage operation at the Sabaki Bridge during the Disaster of the Twawfiq and TSS Busses that plunged into the river where the naval divers, Kenya Navy Dockyard, CIVICON Engineering and KPA equipment were central in the Salvage. Major Gen (Rtd) Rob has received Notable awards such as Moran of Golden Heart (M. G.H.) and Chief of Burning Spear (C. B. S.). Major Gen (Rtd) Rob's tenure to the KMA Board expired in April, 2018.
  Prof. Eric Chenje Mwachiro, Ph.D. Director **(Term Expired)** PH. D in Hydrobiology-Limnology and Fisheries from Rajasthan Agriculture University Bikaner	Prof. Eric Chenje Mwachiro was an Independent Director of Kenya Maritime Authority Board. Born in 1958, he has over 20 years' experience in the Academic, Environmental, Maritime and Agricultural Sectors. Prof Mwachiro has 15 years work experience as an Associate Professor at Jomo Kenyatta University of Agriculture and Technology as the Pioneer Chairman of two departments, (Zoology 1995-99 and Medical lab. Sciences 2007-09). Prof. Mwachiro also was the University Coordinator, ADP Programme for Self Sponsored Students and the Internal Quality Auditor for the university. Prof. Mwachiro is currently an Associate Professor at Pwani University in the Teaching, Research, innovations and Administration offices of the University.

India. M.Sc. zoology Mohanlal Sukhadia University, Udaipur India. Master of Business Administration (M.B.A) Jomo Kenyatta University Agriculture & Technology, and B.Sc. in biology from Mohanlal Sukhadia University, Udaipur India.	Prof. Mwachiro is a Member of the Fisheries Society of Kenya, Clinical Officers Association of Kenya, Kenya Medical lab Sciences Board, Western Indian Ocean Marine Science Association (WIOMSA) (Kenya), Kenya Medical Technicians & Technologist Board and holds a Fellowship award from the Commonwealth Fellowship for PhD (1989-1993). Prof. Mwachiro tenure to the Board expired in April, 2018.
  Mr Julius Segera Alternate Director **(Retired)** Master's Degree in Maritime Administration, World Maritime University. Master of Arts (Population Geography) University of Nairobi. Bachelor of Arts University of Nairobi. Post graduate diploma (Maritime Administration Port / Management) from National University of Singapore.	Mr Julius Segera was born in 1966. He was appointed on 5th April 2016 as the Alternate Director Principal Secretary, State Department of Transport, Ministry of Transport, Infrastructure, Housing and Urban Development. Mr Segera has over 20 years of public sector progressive work experience. In 2003 he became the Principal Shipping Officer/Program Coordinator, Reforms at the Ministry of Transport, while in 2012 he worked as the Undersecretary to the Assistant Director Shipping and Maritime. From 2012 to date Me Segera is the Assistant Director Shipping/Maritime in the Ministry of Transport, Infrastructure, and Housing and Urban Development. He is retired from the KMA Board.
  Mr. Shem Nyakutu	Born in 1967, Mr. Nyakutu was an Alternate Director in the Kenya Maritime Authority Board for the Cabinet Secretary National Treasury and Planning – Henry K. Rotich, EGH. Mr. Shem Obongo Nyakutu, has vast experience in the Public Sector and he currently serves as the Director of Pensions, in the National Treasury. He is retired from the KMA Board.

Alternate Director **(Retired)** Master of Science, Bachelor of Arts and Bachelor of Laws.	
 Ms. Jane F. Otieno MBA Strathmore University, LLB, UoN and Post Graduate Diploma from the Kenya School of Law	Mrs. J. F. Otieno joined the Authority on the 10th January 2017 as the Corporation Secretary and Head of Legal Services. She has previously worked in the same capacity in various organizations for over 29 years. She held other international positions as Vice-Chair– Legal Affairs – Telematics Co-operative Universal Postal Union. Mrs. Otieno is a member of WOMESA, the Federation of Women Lawyers of Kenya, Law Society of Kenya, Institute of Certified Public Secretaries, Notary Public and Commissioner for Oaths.

III. MANAGEMENT TEAM

	RESPONSIBILITY
1. Mr. George N. Macgoye, EBS, OGW Director General 	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.
2. Capt. Dave N. Muli–Ag. Head of Maritime Safety	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.
3. Mr. John Omingo – Head of Commercial Shipping Bachelor of Ed (SC), MSC (Shipping Admin.) Post Graduate Diploma in Transport Management	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.
4. Ms. Jane F. Otieno-Corporation Secretary & Head of Legal Services 	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.

5. Mr. Cosmas Cherop – Head of Corporate Support Services Bachelor of Arts, MBA (Finance), CPA (K)	In charge of all the Corporate support service. This include, Finance and Accounting, Human resource, ICT and Administration functions.

IV. CHAIRPERSON'S STATEMENT

The Office of the Chairman of the Board is pleased to present to you the annual financial report for the year 2017/2018 prepared pursuant to the Public Finance Management Act 2012 and the Kenya Maritime Authority Act 2006 in line with Public Sector Accounting standards. The report reflects the Authority's performance during the period under review and is in line with the functions and objectives as stipulated in the Kenya Maritime Authority Act and the Strategic plan.

We are committed to making Kenya Maritime Authority become the leading maritime administration, transforming Kenya into a globally competitive nation in fulfilment of the Authority's mandate and enhancing its contribution to country's Big Four Agenda and Vision 2030.

In ensuring sustainable, safe, secure, clean and efficient water transport for the benefit of all our stakeholders as our mission, we are committed to frequent engagement with our stakeholders at all levels and ensure full compliance with established statutes and international conventions, codes and guidelines.

In the financial year 2017/2018, some of the accomplished key milestones in the fulfilment of the Authority's mandate are:

1. Achievement of 87.5% Port State Control inspections for all convention and non-convention ships calling into the port of Mombasa during the financial year;
2. Expansion of Search and Rescue (SAR) Infrastructure to Shimoni, Kwale County and Kalkol in Lake Turkana;
3. Inspection of 570 Vessels under Port State Control program and 6757 vessels under the Flag State Implementation inspections;
4. Development of curricula, instructor guides and trainee manuals for certificate and diploma programs for seafarers training as well as in maritime transport logistics as a major human resource capacity for the big four agenda and Vision 2030 initiatives.;
5. Establishment of inter-agency implementation framework for initiatives aimed at unlocking the economic potential of Lakes Victoria and Turkana;
6. Ongoing construction of the KMA headquarter in Mombasa with estimated work progress of 25%;
7. Enhanced automation of internal operations in the Authority; and
8. Improved collaboration with industry players through regular meetings over resolution of industry challenges.

Looking into the future, we foresee an improved industry arising from our continued effort to enhance our capacity to deliver on our mandate on safety and security of shipping in clean waters as well as improved framework for building human capacity for the sector in collaboration with other government agencies. To this end, we have partnered with various educational training institutions to build qualified and credible workforce for the sector.

Kenya Maritime Authority sustained participation and facilitation of stakeholder's engagements in the sector 'through meetings, workshops and conferences during the period under review.

CHAIRPERSON
BOARD OF DIRECTORS
KENYA MARITIME AUTHORITY

V. REPORT OF THE DIRECTOR GENERAL

Introduction

The Kenya Maritime Authority Annual Report and Financial Statements for the 2017/2018 financial year has been prepared pursuant to the Public Finance Management Act in line with International Public Sector Accounting Standards.

As a maritime regulator, we are committed to be a leading maritime administrator, transforming Kenya into a globally competitive nation. We take cognizance of the Governments Big Four Agenda, Kenya's Vision 2030, the Merchant Shipping Act 2009 and the Authority's Corporate Social Responsibility. We are equally regulated by International treaties and conventions as acceded from time to time by the Government of Kenya upon promulgation from the International Maritime Organization. This has enabled us to achieve the highest practicable international standards of maritime safety and security and efficiency in navigation.

Herein, we have highlighted the Authority's performance during the stipulated period in line with its functions and objectives in the KMA Act 2006 and Strategic Plan for the period 2013/2018.

Operational Performance

1. Construction of KMA Headquarters

The Authority implemented this project in line with its Strategic Plan in order to strengthen the physical capacity of the Authority to deliver on its mandate. The construction commenced on 3rd April 2017 with a projected completion date of 23rd December 2018. The construction is now in its 66th week approximately 72% of the period allowed for the construction The difference being piling works conducted to stabilize the foundation. The Authority expect the contractor to accelerate the works with a view of recovering lost time and complete the work within reasonable time having dealt with challenges experienced at the inception of the project.

2. Safety of Life at sea

The Authority managed to achieve 87.5% Port State Control inspections for all convention and non-convention ships calling into the port of Mombasa during the financial year. We expect a change in this trend since the Authority looks forward to one more surveyor qualifying to join the team. A further 6,757 small vessels where inspected with a majority being unseaworthy. To this end the Authority plans to continue conducting sensitization of the boat owners and operators of small vessels in order to increase compliance levels.

3. Human Resource capacity building in the maritime sector

3-1 Implementation of Maritime Transport Logistics Curriculum

The Authority completed re-editing of Instructors Guides and Trainee manuals in collaboration with the KICD and KPA. The Authority plans to print and disseminate the instructors' guides and trainee manual to the relevant training institutions for adoption in the Financial Year 2018/2019. The Authority held two training of trainers' (TOT) workshop and an awareness workshops for approved and new training institutions and potential students in Mombasa and Nairobi respectively.

3-2 Oversight on Seafarer's Training

A Coxswain syllabus course was developed and published in partnership with industry stakeholders. The course has since been delivered by approved training institutions in the country. The Authority also conducted verification audits for two approved institutions to ensure that the delivery of the approved programs are in line with the regulations.

4. Implementation of recommendations from the research on KMA's role in revamping commercial activities in Lakes Turkana and Victoria

KMA undertook an analysis of relevant stakeholders responsible for implementation of recommended projects of the study. The key projects were identified and related budgets developed. The Authority held consultative meetings on the implementation of the proposed investment opportunities in Migori, Homabay, Kisumu, Siaya and Busia County. At a workshop attended by senior officials from the five County Governments bordering Lake Victoria in June 2018 in Kisumu, the counties agreed to incorporate recommended projects in their Integrated County Development Plans.

5. Expansion of Search and Rescue (SAR) Infrastructure

The Authority operates the Regional Maritime Rescue Coordination Centre in Mombasa on a 24 hour basis and has extended reception with limited operations in Kisumu and Lamu. We expect to extend the same services in Shimoni, Kwale County and Kalkol in Lake Turkana after receiving three search and rescue boats. The Authority continues to engage the public in preventive measures which includes training of operators on search and rescue coordination and lifesaving skills.

6. International Ship and Port Facility Security Audits

To ensure compliance with International Ship and Port Facility Security (ISPS) Code, the Authority undertook 4 ISPS audits to verify the measures adopted by the Port facility operators were maintained in the period. The Authority also certified the new second container terminal after meeting the requirement provided in the ISPS Code and the security regulations.

7. Prevention of Ship source marine Pollution

The Authority held sensitization workshop and marine protection campaigns to promote the protection of marine environment and improve efficiency of response to marine environment incidents. A stakeholder's workshop on oil spill table top exercise was also held in partnership with the Norwegian Coastal Administration.

8. World Bank funded capacity building on KMA's oversight on maritime transport services

The draft KMA Amended Bill 2018 and KMA (Maritime Transport Operations) Regulations 2018 were refined online. The Terms of References (TORs) for the implementation of Phase II are still being developed. Negotiations are ongoing with Trade Mark East Africa (TMEA) Consultant on ICT Platform for the Port Community Charter on the development of specifications to inform the TORs.

9. Trade Facilitation Measures

Sensitization on use of appropriate International Commercial Terms (INCOTERMS) was carried out in Nakuru, Kisumu and Mombasa covering among key issues; Uptake of Marine Cargo Insurance; VGM implementation; SGR performance; Inter-modal transportation, localization of payment of ocean freight and implementation of KRA's iCSM system, among others.

10. Implementation of the SOLAS Amendments on mandatory container weighing

The Authority is preparing to hold follow up sessions with the stakeholders after the Audit that took place in May 2018, to provide guidance on areas of improvement. Engagements with KPA are on course.

11. Memorandum of Cooperation (MOC) and Industry Standards

Consolidation of input on the MOC from various stakeholders was done. However with the Integrated Customs Management System (ICMS) expected to roll out soon, a few areas in the MOC are expected to be amended.

12. IMO Member State Audit Scheme (IMSAS)

The IMO conducted the audit of Kenya from 7th to 14th May, 2018 in line with the IMO Resolution A.1070 (28) for IMO Instruments Implementation Code (III Code) to determine the extent to which Kenya is implementing and enforcing applicable IMO instruments and conventions. These instruments included in the scope of the audit are SOLAS 1974 and its 1988 Protocol, MARPOL), STCW 1978), load lines (LL 66 and its 1988 Protocol), tonnage measurement of ships (Tonnage 1969) and COLREG 1972. The audit enhances the nation's compliance to the IMO mandatory instruments, which is expected to build confidence in the country's maritime sector in relation to maritime safety, security and marine pollution prevention. The Authority is awaiting the Audit report to institute corrective and preventive action.

In the year under review the Authority collected a total of Kshs 1.59Billion compared to financial year 2016/2017 total revenue of Kshs 1.44Billion being an increment of 11%. Total recurrent expenditure reduced from Kshs 1.11Billion (FY2016/2017) to Kshs 210Million represent a 17% decrease.

The Authority's assets increased by 44% from Kshs 2.08Billion in FY2016/2017 to Kshs 3.00Billion. Non-current assets increased from the previous year's Kshs 567Million to Kshs 1.298Billion in the FY2017/2018 representing a 195% growth while the current assets reduced from Kshs 1.51Billion in FY2016/2017 to Kshs 1.31Billion representing a 13% decline.

The Authority's current liabilities increased by 33% from Kshs 752million in the previous year to Kshs 998million in FY2017/2018. The marked increase is due to Kshs 192Million being Head office construction cost payable as at end of FY2017/2018 and a retention account of Kshs 65Million on the same. Further, total Equity increased by Kshs 922Million representing a 44% growth.

PP

George N. Macgoye, EBS, OGW
AG. DIRECTOR GENERAL

VI. CORPORATE GOVERNANCE STATEMENT

In accordance with the Board Manual and code of best practice, the Authority has adopted high standards and applies strict rules of conduct, based on the best corporate practices. As part of this commitment, the Board adheres to good corporate governance by embracing the following principles:

1. High standards of ethical and moral behavior
2. Acting in the best interest of the Authority.
3. Remuneration and promotions done fairly and responsibly.
4. Recognizing the legitimate interests of all stakeholders
5. Ensuring that the Authority acts as an exemplary good corporate citizen.

Directors responsibilities include determining and reviewing the Authority's strategic direction and operational policies; establishing goals for management and monitoring the achievement of these goals. The Board also reviews and approves the Authority's strategic and financial plans respectively.

The Board conducts an annual self – evaluation process to measure its own performance, to ensure that it is constantly adhering to the objectives and mandate of the Authority. The last Board evaluation was conducted by S.C.A.C on the 27th of May, 2016, no evaluation was carried out in 2017. An evaluation will now be conducted once the Board of Directors is fully constituted, following the expiry of three Board members in April 2018.

The Director General is accountable to the Board for the management of the Authority as prescribed in the Act and more specifically in the Board manual and code of best practice.

The Board monitors the performance of the Authority's senior Management by reviewing the financial performance on a quarterly, half-yearly and annual basis.

The Performance contract and the strategic plan are key documents towards fulfilling these principles and are anchored in the Kenya Maritime Authority Act and appurtenant regulations, Treaties and Conventions which Kenya has acceded to, State Corporations Act among several other legislations in Kenya that the Authority is subservient to.

The Board shall act in the best interest of the Authority and uphold the fiduciary responsibilities and duty of care. This involves not disclosing confidential information, avoiding real and perceived

conflicts of interest, and favoring the interests of the Authority over other interests. The Board members will act honestly and in good faith so as to create a culture built on principles of integrity accountability and transparency.

There is a Corruption Prevention Policy in place that reiterates the Anti- Corruption and Economic Crimes Act, Act No. 3 of 2003 with regards to issues of conflict of interest. The Authority in turn has in place two separate Conflict of Interest Registers- one for the Board and the other for members of staff.

Board Structure

The Board presently has five (5) independent Directors appointed in accordance with section 6 (1) d of the Kenya Maritime Authority Act and representatives of the Government as per section 6 (1) b of the Kenya Maritime Authority Act. The members have diverse qualifications and capable of leading the Authority in the execution of its mandate.

KMA currently does not have a substantive Chairman as the previous Chairman- Mr. Mwalimu Digore Kitambi's term expired in January 2017.

Directors terms of appointment to office are governed by Part III of the Kenya Maritime Authority Act, State Corporations Act and Executive order no. 7 as detailed in the *Mwongozo* ; Code of Governance for state Corporations 2015. There is also a Board Charter in place which is fashioned on the Mwongozo Code to regulate the conduct of Board business.

The removal of a Board member is governed by Sect 6 (2) of the State Corporations Act.

To assist the Board discharge its responsibilities, the following committees are in place:

1. Technical and Operations committee
2. Finance and Human Resource Committee
3. Governance and Integrity Committee
4. Audit & Risk Committee.

All the Board members have undergone the compulsory induction training by the State Corporations Advisory Committee (SCAC). In addition, all Directors are members of the Institute of Directors and

have all been trained in Good Corporate Governance. The Directors are remunerated as per prevailing government circulars and official directives.

A Governance Audit is scheduled to be carried out in the financial year 2018/2019.

There were 34 Board meetings conducted in the 2017/2018 financial year.

Attendance of Board Meetings

NO.	NAME	TYPE OF DIRECTOR	NUMBER OF MEETINGS ATTENDED
1.	Mr. Francis Muraya	Alternate, PS State Department of Shipping & Maritime	3
2.	Mr. Hezbourne Otieno Makobongo	Alternate National Treasury	3
3.	Major Gen (Rtd) Anthony Rob, NDC(K)	Independent (Term expired)	31
4.	Mr. Ismail Mboya	Independent (Term expired)	29
5.	Ms. Malika Omar	Independent	28
6.	Prof. Chenje Mwachiro	Independent (Term expired)	31
7.	Ms. Agnes Ndwiga, HSC	Independent	25
8.	Mr. Charles Mutinda	AG's Alternate	26
9.	Mr. Julius Segera	PS Alternate (Retired)	34
10.	Mr. Shem Nyakutu	Treasury Alternate (Retired)	21

The Management has a Management Committee that handles all the operational matters of the Authority and puts in place several other committees to handle Audit, Licensing, Procurement, Public Relations or as the need arises.

The Chairman and the Director General (DG) have separate and roles; the Chair is responsible for leading the Board in the discharge of its duties while the DG is responsible for implementing the strategic plan of the Authority.

CS - Mrs. Jane Florence Otieno
CORPORATION SECRETARY
BY ORDER OF THE BOARD.

VII. MANAGEMENT DISCUSSION AND ANALYSIS

The Authority Operational and Financial performance

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.*"

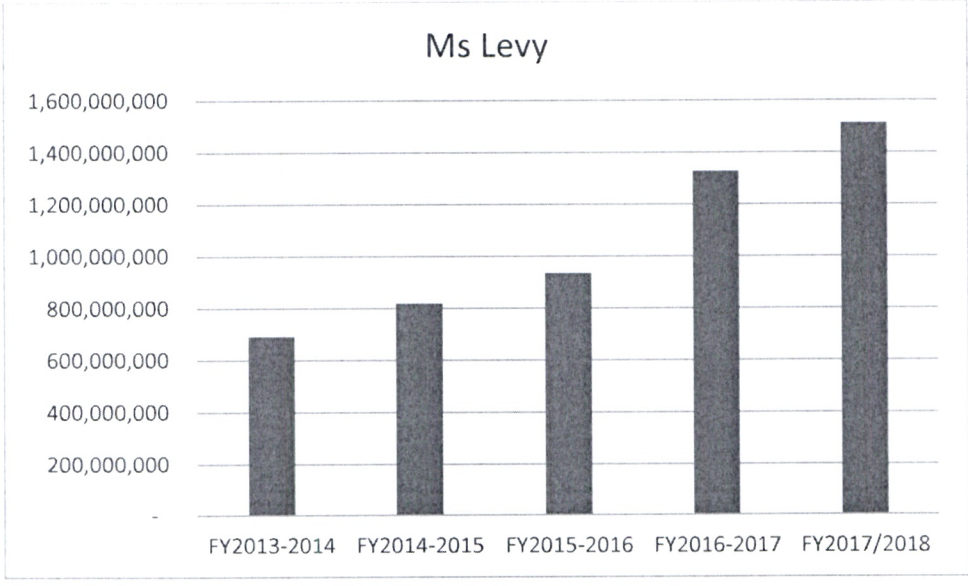
The Authority has four departments namely; Corporation Secretariat & Legal Services, Maritime Safety, Corporate Support Services, and Commercial Shipping, each of which is under the leadership of a Head of Department and the Directorate. The Directorate directs the Authority's entire operations and is 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 Corporation Secretary and Legal Services provide legal and policy guidance and advice to the core divisions and the Corporate Support Services Division provides corporate support services to the Authority. The Corporate Support Services Division facilitates the other departments in the delivery of their responsibilities and performance of their duties by providing finance and administrative support.
The four branches in Kisumu, Lamu Island, Lodwar and Baringo are now operational. The County offices will also serve as Search and Rescue Coordination sub-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.

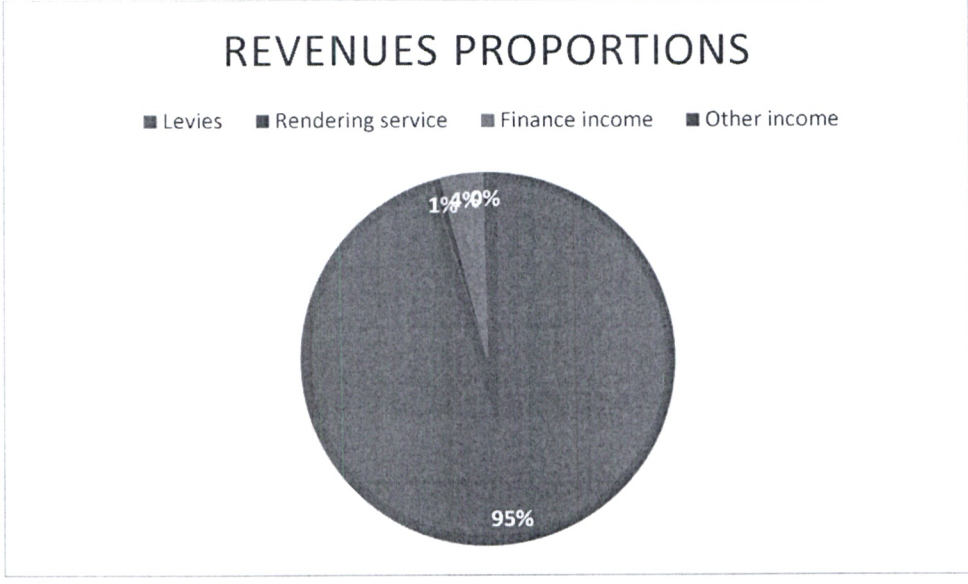
During the Financial Year 2017-2018 that ended on 30th June 2018, the Authority was able to collect **Kshs 1,593,089,262** being **Kshs 1,511,762,442** from MS Fees, which is the main source of Income, there was no support in terms of Government grants, and the Authority collected an additional

VII. MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Kshs 81,326,820 from other source of income which include boat surveys, licence fees, interest income and other miscellaneous income. This was 11% up from last financial year 2016/2017 due to growth in cargo volumes boosting Merchant Shipping Fees collections by 14% in comparison to previous year collections



The Authority projects 8% growth in the subsequent year, this is based on expansion of the port and efficiency that will be brought about by the new railway system leading to increase in volume of import and export cargo which is the basis of charging MS Fees.



The main challenge is the unpredictability of the economic outlook which would affect the level of business activity in the country. This would have an effect on the level of trade which would have a significant impact on the import-export trade.

VII. MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Authority Compliance with Statutory Requirements

The Authority operate under the following key statues, KMA Act, PFM Act, Income Act and Public Procurement and Asset disposal Act among other statues. KMA management have tried their level best to ensure that the Authority complies with all the relevant sections of these statues.

Key Projects and Investment Decision the Authority is Planning/Implement

During the four quarter of the financial year the Authority planned for the following project. Status and financing arrangement have been indicated accordingly.

	STATUS OF PROJECTS COMPLETION					
	Project	**Total project Cost**	**Total expended to date**	**Completion % to date**	**Budget**	**Sources**
1	Research & Development	58M	7.6M	13.1%	58M	KMA
2	Enterprise Management System and EDM	10.5M	0	0%	10.5M	KMA
3	Purchase For Motor Vehicle	15M	12.2M	100%	15M	KMA
4	Construction of KMA HQs	1800M	651M	36%	1,000M	KMA
5	Multinational Lake Victoria Maritime Communication & Transport Project	828M	0	0%	79M	KMA & AFDB
6	Integrated Coastal Security Surveillance System	50M	0	0%	50M	IMO/DENMARK/GOK
7	Patrol Boats-Mombasa, Kisumu and Turkana	42.8M	42.8M	100%	50M	KMA
8	GMDSS Communication system	50M	0	0%	15M	KMA
9	Construction of SAR office in Kwale	10.4M	0	0%	50M	KMA
10	Digitization of documents(EDMs)	4M	0	0%	4M	KMA
11	Disaster Recovery set up	8M	0	0%	8M	KMA

Most of these projects have been and will be financed from internal sources and for those which are donor funded relevant contracts have been signed as commitment to avail funds.

Major risks facing the Authority.

The Authority faces liquidity risk in the event it settles in full the arrears of the statutory 90% of surplus accumulated from FY2012/2013 to FY2016/2017.

Material arrears in statutory /financial obligation

The Authority is in arrears of settlement of the 90% surplus made as per the PFM Act. The Management are in discussion with National Treasury on the best way forward since the surplus made was approved by The National Treasury to be utilized for Development projects.

Financial probity and serious governance issues

During the year there are no major governance and audit issue raise by the Audit Committee, external auditor or national Government.

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

The Kenya Maritime Authority (KMA) is committed to carrying out its affairs in a socially responsible, sustainable and meaningful way while creating shared value in a way that benefits the society by addressing its needs and challenges.

The Authority therefore regards CSR as a strategic means to:

i. create shared value and make a positive contribution to the society;
ii. build trust and confidence in the organization;
iii. foster teamwork among employees and commitment to the Authority; and
iv. enhance responsibility for the environment, and society.

During the financial year 2017/2018 the Authority expended Kshs 3.7million in its entire CSR activities countrywide. Priority was given to activities pertaining to the KMA mandate, education, health, community involvement and environmental protection in line with the Authority's CSR policy as outlined below:

1. KMA Mandate and Strategic Plan

The Authority is committed towards enhancing maritime safety and security as its core mandate. In this regard, KMA supported local Beach Management Units (BMU) who had challenges acquiring life jackets for their boats by donating 100 life jackets in Naivasha and 50 in Baringo. This was aimed at encouraging the local BMU's to embrace a 'life jacket' mentality in order to promote maritime safety and protect the lives of water transport users.

The total funding channelled to this initiative was therefore **Kshs. 424,900.**

KMA donates life jackets to Kampi ya samaki – BMU in baringo

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING (Continued)

2. Education

Kenya Maritime Authority is passionate about supporting educational initiatives and promoting access to education among all in tandem with disseminating information about the maritime sector. Particularly, KMA has been keen to promote access to education in needy areas and sensitizing and mentoring needy communities on the maritime sector and available career opportunities in the sector.

During the financial year, the Authority supported the Kipusi Primary school, Ngeno Primary School and Sowa primary School in Taita Taveta County by donating auxiliary educational items consisting of panties, sanitary towels and geometrical sets at a cost of **Kshs. 660,000**.

Furthermore, the Authority also supported learning by donating 60 school bags to pupils of Mahmoud Bin Fadhil Girls primary school in Lamu County at a cost of **Kshs. 138,050**. Through the aforesaid educational support, the Authority contributed towards an improved educational environment for local communities to promote conducive learning, motivate pupils and build self-esteem in learners from needy communities. This is projected to go a long way in enabling learners in the local needy communities to achieve their educational goals.
The total funding channelled to education was therefore **Kshs. 798,050**.

KMA staff donate auxiliary educational items to schools in Taita-Taveta County

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING (Continued)

3. Health, Community involvement & Charitable projects

The Authority supported health initiatives in order to improving health standards of the beneficiaries in the country. The contributions are aimed at promoting the Sustainable Development Goals on ensuring healthy lives and promoting well-being for all ages and vision 2030 under the social pillar. This year's beneficiaries included:-

i. The Coast Hospice:

The Coast Hospice based in Mombasa provides palliative care to needy groups of cancer patients in the community who are in their final phases of life and mostly depends on donors for its provisions. The Authority therefore donated required medicines for the Coast Hospice patients at a cost of **Ksh.199, 980**.

This was in line with the SDG goals - ensuring healthy lives and promoting well-being for all at all ages, Vision 2030 - social pillar and the Authority's CSR policy on Health and Community involvement.

KMA staff donate medicines to the Coast Hospice in Mombasa

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING (Continued)

ii. Mater Heart run

The Authority participated and donated in the Annual Mater Heart run program aimed at supporting children from needy families who are unable to afford cardiac treatment and surgeries. The Authority therefore took up the **Ruby sponsor category at a cost of Kshs 500,000** and its employees of KMA took part in the Mater Heart run to help raise more funds for the needy children's heart surgeries around the country. It was reported that at least 18,439 children benefited from the program and the Authority is pleased to have touched a child's heart in the initiative.

KMA staff volunteer &participate in the annual Mater Heart Run

iii. *The Standard Chartered Marathon: Run for a reason*

The Authority took part in the Standard Chartered Nairobi Marathon,15th edition, an IAAF accredited charitable event, to raise funds for cataract and eye surgical interventions for needy children under the age of 15 years. The marathon was attended by over 350 corporates in Kenya and was an opportunity for the Authority's staff to participate together with other organisations in this national charitable initiative of good will in line with the Authority's CSR policy. The Authority donated **Ksh. 100,000** towards the Standard *Chartered Marathon: Run for a reason*

KMA staff volunteer & participate in the Standard Chartered Marathon- Nairobi: Run for a reason

iv. **Support towards Seafarers:** the Authority provided administrative support to the Kenya Seafarers Welfare Association (KESEWELA) by printing their registration forms at a **cost of Ksh. 20,000.**

During the year, the Authority therefore provided funding of **Kshs. 819,980** towards health, community involvement activities and charitable projects.

4. Marine Environment Protection

The Authority was committed to minimizing harmful impacts on the marine environment. In this regard, the Authority supported environmental protection and preservation initiatives aimed at safeguarding the marine environment and the environment in general as well as partnerships with environmental agencies as it related to initiatives and projects that promoted marine environmental protection and preservation within communities.

KMA therefore supported the International Coastal Clean-up initiative by the participation of its staff in cleaning up beaches and donating 500 bottles of water during the clean-up exercises at the beaches at a cost of **Ksh. 91,499**. Additionally, the Authority also began the first phase of its marine environment project of mangrove planting at Mkupe jetty and marine waste management, recycling

and sensitization of local school going children in Gede- Malindi at a cost of Ksh. **110,000.** The project is scheduled to be finalized in the financial year 2018/2019. The total cost of marine environment protection initiatives was therefore **Ksh. 201,499.**

KMA staff volunteer during a beach clean-up exercise

IX. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2018 which show the state of the Authority's affairs.

Principal activities

The principal activity of the Authority is to regulate, co-ordinate and oversee maritime affairs.

Results

The results of the Authority for the year ended June 30, 2018 are set out on page 1.

Directors

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

Surplus remission

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. The Authority awaits concurrence from the National Treasury on the recomputed Surplus before payment for the arrears up to financial year 2016/2017.

Auditors

The Auditor General is responsible for the statutory audit of the Authority in accordance with article 229 of the Constitution of Kenya and section 35 of the Public Audit Act 2015.

By Order of the Board

CORPORATION SECRETARY
MOMBASA
Date: 27/3/2019

X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81(5) of the Public Finance Management Act, Cap 412C (PFMA) and section 14(3) of the State Corporations Act, Cap 446 (SCA) 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, 2018. 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 Financial Public Sector Accounting Standard (IPSAS), and in the manner required by the PFMA and the SCA. 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, 2018, 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 **21st September, 2018** and signed on its behalf by:

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 2018

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Kenya Maritime Authority as set out on pages 1 to 37 which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in equity, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Kenya Maritime Authority as at 30 June 2018, 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 do not comply with the Kenya Maritime Act, Cap 370 of the Laws of Kenya.

Basis for Adverse Opinion

1.0 Presentation of the Financial Statements

The financial statements for the year ended 30 June 2018 availed for audit omits on the table of contents report of the independent auditors on Kenya Maritime Authority which is on page xxxvii.

Consequently, the presentation of the financial statements does not comply with the International Public Sector Accounting Standard No. 1 as prescribed by Public Sector Accounting Standards Board.

2.0 Revenue from Non-Exchange Transactions

The statement of financial performance for the year ended 30 June 2018 reflects revenue from non-exchange transactions of Kshs.1,511,762,442 in respect of merchant shipping levy as disclosed in Note 3 to the financial statements. However, audit review of merchant

shipping levy from cargo manifests sent by Kenya Revenue Authority totaled Kshs.1,516,592,132, resulting to a variance of Kshs.4,829,690 which has not been explained or reconciled. Further, although the records indicate that the Authority outsourced the collection of merchant shipping levy to Kenya Revenue Authority, no system has been put in place for determining the amount of levy collectible by Kenya Revenue Authority. In addition, Kenya Revenue Authority sends copies of cargo manifests to the Authority but the management relies on revenue reports remitted by Kenya Revenue Authority. No evidence was availed to confirm that the reports are verified against the manifests.

Consequently, the accuracy, validity and completeness of merchant shipping levy of Kshs.1,511,762,442 for the year ended 30 June 2018 could not be confirmed.

3.0 General Expenditure

The statement of financial performance for the period ended 30 June 2018 reflects general office expenditure of Kshs.375,973,734 as detailed in note 13 to the financial statements. The following observations were made;

3.1 Domestic Air Travel and Local Duty Travel Allowances

Included in the general office expenditure is domestic and overseas air travel of Kshs.22,474,260, and duty travel allowances of Kshs.69,794,866. Records availed for audit indicated that Kshs.1,841,903 domestic air travel, and Kshs.6,161,507 local duty travel allowances all totaling to Kshs.8,003,410, relates to the Ministry of Housing, Infrastructure and Urban Development officers. However, the management did not provide explanations as to why Kenya Maritime Authority incurred the expenditure on behalf of the Ministry.

Consequently, the propriety and validity of domestic and overseas air travel and duty travel allowances of Kshs.8,003,410 for the year ended 30 June 2018 could not be confirmed.

3.2 Legal Fees

The statement of financial performance for the period ended 30 June 2018 reflects general office expenditure of Kshs.375,973,734. Included in this expenditure is Kshs.4,895,220 in respect of legal fees, out of which Kshs.4,344,000 was paid to a legal firm representing the Authority. Records availed for audit review indicated that the management made the payment without preparation of a payment voucher, quotations, tender evaluation and award minutes and evidence of services rendered. Further, no records were availed to confirm authorization of remittance of the funds to the law firm.

In addition, the management did not provide evidence to confirm that the Authority sought approval and concurrence of the Attorney General before procuring private legal services as required by the Attorney-General Circular Ref. AG/CONF/6/E/247 VOL.II of 16 April 2014.

Consequently, the propriety, validity and legality of legal fees of Kshs.4,344,000 for the year ended could not be confirmed.

3.3 HIV and AIDS Related Awareness

Note 13 to the financial statements for the year ended 30 June 2018 reflects Kshs.7,535,484 in respect of HIV and AIDS related awareness. Included in this amount is Kshs.1,768,590, being expenditure incurred by employees for conducting community HIV and AIDS support activities. However, the management did not provided details of the specific support activities conducted and the target beneficiaries. A further sum of Kshs.2,401,200 was incurred on conferences and accommodation of staff family members and Kshs.515,200 on Authority's staff undertaking awareness activities in various shows across the country all totaling to Kshs.2,916,400. Again, this expenditure was not supported by attendance lists for the conferences and evidence of travel for the shows conducted across the country.

In addition, the Authority spent Kshs.777,220 on sensitization programs in Kisumu, Watamu and Lamu, out of which Kshs.529,240 was paid to individuals who were not its employees. However, the basis of rates used was not provided for audit confirmation.

Consequently, the accuracy, propriety and validity of HIV and AIDS related awareness expenditure of Kshs.5,214,230 for the year ended 30 June 2018 could not be confirmed.

3.4 Professional and Consultancy Fees

Note 13 to the financial statements for the year ended 30 June 2018 reflects Kshs.5,506,635 in respect of professional and consultancy fees. Included in this amount is Kshs.4,628,800, being payment for provision of consultancy services to review and develop a strategic plan and an organizational structure for Kenya Maritime Authority. The contract was awarded to a consultancy firm at a contract sum of Kshs.5,452,000, out of which Kshs.4,628,800 or 85% had been paid as at 30 June 2018. Records availed for review indicated that the services were to be offered within a period of two (2) months from 8 November 2017 when the contract was signed. However, as at the time of audit in the month of February 2019, about twelve (12) months after the expected completion date, the service provider had not finished the work.

Consequently, the propriety, validity and value for money for Kshs.4,628,800 on professional and consultancy fees for the year ended 30 June 2018 could not be confirmed.

4.0 Irregular Payment of Lunch Allowances to Board of Directors

The statement of financial performance for the year ended 30 June 2018 reflects Kshs.39,592,348 in respect of Board of Directors costs as disclosed in Note 10. Included in this balance is Kshs.32,011,026, being allowances and other expenses, out of which Kshs.640,000 is in respect of lunch allowances paid in addition to accommodation and subsistence allowances, contrary to Public Service Commission Human Resources Policies, 2016, Clause C.17(1) which states that, 'Meal allowance will only be paid to officers travelling on duty within the country but who are not required to spend a night away from the permanent duty station. Meal allowance will not be paid alongside accommodation allowance'.

Consequently, the propriety of Kshs.640,000 on meal allowances for the year ended 30 June 2018 could not be confirmed.

5.0 Repairs and Maintenance

5.1 Motor Vehicles and Boats Repairs

Note 12 to the financial statements for the year ended 30 June 2018 reflects Kshs.1,161,081 in respect of motor vehicle and boats maintenance. However, mechanical inspection reports, purchase requisitions by the user departments, motor vehicle service log books and post repair inspection reports were not availed for audit review.

Under the circumstances, the propriety and validity of Kshs.1,161,081 on motor vehicles and boats repairs for the year ended 30 June 2018 could not be confirmed.

5.2 Maintenance of Buildings

Note 12 to the financial statements for the year ended 30 June 2018 reflects Kshs.2,119,554 in respect of maintenance of buildings. Audit review of maintenance of buildings documents showed that, during the period under review, the Authority requested for quotations from three firms for painting of Lamu office. The tender was awarded to one of the bidders at a cost of Kshs.571,444. However, it was established that the purchase requisition was dated 3 July 2017 while the support quotations were dated 13 March 2017, an indication that the quotations were sent five (5) months earlier than the purchase requisitions, contrary to the Kenya Maritime Authority procurement procedure manual clause 7.3 which indicates that quotations should be raised after the purchase requisition. Further, The Authority did not avail for audit review minutes of the tender evaluation committee.

Under the circumstances, the propriety of Kshs.571,444 on painting of Lamu office for the year ended 30 June 2018 could not be confirmed.

6.0 Cash and Cash Equivalents

The statement of financial position as at 30 June 2018 reflects cash and cash equivalents balance of Kshs.989,042,065. Included in this balance is Kshs.747,033,514 in respect of cash held at Kenya Commercial Bank Limited. The support bank reconciliation statement as at the same date indicated payments in bank statement not yet recorded in cashbook of Kshs.4,344,000 described as legal fees. Further, records availed for audit review indicated that, the management authorized the transfer of Kshs.4,344,000 to a third party without verification of invoice by the procurement officer, provision of supporting documents, authority for preparation of payment voucher by the accountant, preparation and recording of the payment voucher, recommendation of payment by head of department, approval of payment by head of commercial shipping and authorization by the Director General for payment as required by Kenya Maritime Authority Financial Procedures Manual paragraph 9.7.1. This indicates a control weakness where funds were transferred from the Authority's bank account without any documentation, approval or authorization.

Consequently, the accuracy, validity and completeness of cash and cash equivalents balance of Kshs.989,042,065 as at 30 June 2018 and the effectiveness of controls on transfers from the Authority's bank accounts to third parties could not be confirmed.

7.0 Trade and Other Receivables from Exchange Transactions

The statement of financial position as at 30 June 2018 as disclosed reflects trade receivables from exchange transactions balance of Kshs.207,865,016 as disclosed in Note 17. The following observations were made;

7.1 Trade Receivables

Included in trade receivables from exchange transactions is Kshs.12,927,987 in respect of trade receivables, out of which Kshs.6,604,812 had been outstanding since 1 July 2015. The management did not provide a satisfactory explanation as to why these debts had not been collected nor was evidence availed to confirm that the same has been referred to an agency for collection as provided in the credit policy. The policy provides that any outstanding amount of over 45 days that has not been received should be recommended to an agency to ensure a follow up and subsequent settlement.

Consequently, the accuracy, recoverability and validity of trade debtors balance of Kshs.6,604,812 as at 30 June 2018 could not be confirmed.

7.2 Other Non-Trade Receivables

Included in trade receivables from exchange transactions is Kshs.143,935,471 in respect of other non-trade receivables, out of which Kshs.2,275,749 was a claim from a supplier for non-performance of contractual obligations, being 20% of the contract sum which was payable after first project meeting, contract sign off and signing of the project charter. The payment was made in relation to a contract dated 15 December 2016 for Kshs.11,378,743 with a contract period of twelve (12) weeks for supply, review, upgrade, installation and support of Enterprise Resource Planning (ERP) system and integration with electronic data management system and other systems. Available records showed that the project stalled before reaching the second milestone and the management indicated that efforts to recover the claim was ongoing. As at the time of audit in the month of February 2019, twenty-five (25) months after the expiry of the contract period, the service provider had not completed the work.

Consequently, the recoverability of other trade debtors of Kshs.2,275,749 as at 30 June 2018 could not be confirmed.

7.3 Provision for Doubtful Debts

Note 17 to the financial statements for the year ended 30 June 2018 reflects provision for doubtful debts amounting to Kshs.4,061,057 and which is the same provision as at 30 June 2017. However, the management did not provide details of how the provision was arrived at, contrary to the Authority's credit policy that requires provision for bad debts to be made where chances of successful collection are minimal. The policy further states that any debts of over 100 days qualify to be provided for and the credit committee shall propose specific provisions for authorization and approval by the Director-General.

Consequently, the accuracy and validity of provision for doubtful debts of Kshs.4,061,057 as at 30 June 2018 could not be confirmed.

8.0 Property, Plant & Equipment

8.1 Purchase of Land for Search and Rescue Centers

As previously reported, included in property, plant and equipment balance of Kshs.1,078,016,509 is a figure of Kshs.39,008,847 in respect of land and building, out of which Kshs.35,180,040 relates to purchase of three pieces of land for search and rescue centers during the financial year 2016/2017 as shown below:

Location	Acres	Amount Kshs
Kwale	3.13	19,500,000
Kisumu	0.8	14,280,040
Deposit for Kwale land		1,400,000
Total		**35,180,040**

Audit verification of the procurement documents revealed the following anomalies:

1. According to the head of procurement's professional opinion for Kwale land prepared on 10 June 2017, it was indicated that the head of procurement compared the prices quoted against the valuation report for each piece of land although the valuation reports were dated 21 July 2016. It implies the valuation report which was received after the head of procurement had issued his professional opinion did not provide guidance in determining the value of the land. This was in violation of Section 84(1) of the Public Procurement and Asset Disposal Act, 2015 which provides that the head of procurement shall, alongside the report to the evaluation committee, review the tender evaluation report and provide a signed professional opinion to the accounting officer on the procurement or asset disposal proceedings. Therefore, the head of procurement's professional opinion report was misleading.

2. According to a correspondence by the Ministry of Land and Physical Planning attached to draft valuation report, it referred to a letter reference KMA /PRO/41 dated 13 October 2015 by Kenya Maritime Authority requesting for valuation of the same pieces of land. It therefore implies that the selected plots had already been identified before the advertisement for expression of interest on 25 February 2016. In addition, the letter was not availed for audit verification despite several requests. It is an indication of predetermined supplier.

3. According to the advertisement for Kisumu land, the land was expected to measure 1 acre and within the vicinity of the port. However, the tender was awarded to a bidder whose land measured 0.8 acres and was 7.1 kilometers from Kisumu Port. This is contrary to the Section 80(2) of the Public Procurement and Assets Disposal Act, 2015 which provides that the evaluation and comparison shall be done using the procedures and criteria set out in the tender documents.

In the circumstances, the propriety and legality of Kshs.35,180,040 in respect of property, plant and equipment and value for money for the year ended 30 June 2018 could not be confirmed.

8.2 Leasehold Land

The statement of financial position as at 30 June 2018 reflects property, plant and equipment balance of Kshs.1,078,016,509 as disclosed in Note 23. Included in this balance is Kshs.203,097,950 in respect of leasehold land, being plot reference Mombasa Mbaraki MSA/ XLVIII/128. A review of the certificate of lease indicated that the property was held on a ninety-nine (99) year lease from Kenya Railways starting 1 January 1971 with an annual rent of Kshs.4,800. Further, the certificate indicated that the leasehold interest was subject to the agreement and other matters contained in the registered lease. However, the registered lease was not availed for audit review.

Consequently, the rights and obligations of Kenya Maritime Authority on the leasehold land valued at Kshs.203,097,950 as at 30 June 2018 could not be confirmed.

9.0 Capital Work in Progress

Note 23 to the financial statements for the year ended 30 June 2018 reflects capital work in progress balance of Kshs.706,789,275, being cumulative cost of works on Kenya Maritime Authority headquarters project being constructed on Mombasa Mbaraki MSA/ XLVIII/128 at a total cost of Kshs.1,728,176,418. The works consists of main building works, electrical, plumbing and drainage, air conditioning and elevator installation works. The following observations were made:

9.1 Advance Payment

Note 17 to the financial statements for the year ended 30 June 2018 reflects other non-trade receivables of Kshs.143,935,471, out of which Kshs.139,478,752 is in respect of un-recovered advance payment for the construction of Kenya Maritime Authority Headquarters contract awarded at a corrected tender sum of Kshs.1,825,239,939, The contractor's bid was Kshs.1,728,176,418. Records availed for audit review indicated that the Authority had paid Kshs.182,523,994, being 10% advance payment as provided in the contract based on a contract sum of Kshs.1,825,239,939. The advance payment was therefore based on the corrected tender sum awarded resulting in over payment of advance by Kshs.9,706,352. However, it is not clear why the management did not recover the overpayment on the first application for payment by the contractor.

Consequently, the validity and legality of the advance payment of Kshs.9,706,352 not yet recovered and the accuracy and completeness of other non-trade receivables of Kshs.143,935,471 as at 30 June 2018 could not be confirmed.

9.2 Interim Certificates

Included in the capital work in progress balance of Kshs.706,789,275 as at 30 June 2018 are payments for interim certificates presented and approved during the year under review amounting to Kshs.539,431,019 as detailed below:

Date	PV number	Details	Amount (Kshs)
9/28/2017	LEAHJV-00330	Work done Payment Block XLVIII/12 Cert No.2	161,413,223
5/21/2018	P_INV15274	Proposed development of KMA HQ office cert 03.	188,551,828
6/28/2018	P_INV15706	Proposed development of KMA HQ office cert 04	189,465,968
Total			**539,431,019**

The following observations were made;

9.3 Payment of General Preliminaries

Note 23 to the financial statements for the year ended 30 June 2018 reflects capital work in progress balance of Kshs.706,789,275, Included in this amount is Kshs.539,431,019 being payments for interims certificate numbers 2, 3 and 4. Audit review of the interim certificates indicated that, the Authority made payment for particular preliminaries (PP10) included item C of the bill of quantities, at a cost of Kshs.3,500,000 which was paid in full plus 15% or Kshs.525,000 profit for ground breaking ceremony. Preliminaries being provisional amounts are reimbursed on production of evidence of actual costs incurred. However, the Authority paid the contractor the full amount without evidence of the actual cost incurred. Further, general preliminaries(GP/10) of the bills of quantities provided for performance security of Kshs.6,075,000 which was also paid. However, the payment was meant to be provided by the contractor as collateral for the employer in case of default on performance by the contractor.

Consequently, the propriety and validity of ground breaking ceremony cost of Kshs.3,500,000 for the year ended 30 June 2018 could not be confirmed. Further, Kshs.6,075,000 paid to the contractor for provision of performance security is irregular.

9.4 Materials on Site

Note 23 to the financial statements for the year ended 30 June 2018 reflects capital work in progress balance of Kshs.706,789,275. Included in this amount is Kshs.539,431,019, being payments for interims certificate numbers 2, 3 and 4. Audit review of these interim certificates revealed that the Authority paid the contractor Kshs.346,409,290 in respect of materials on site during the period under review. During site inspection on 7 February 2019, it was established that the construction materials were not held at the construction site nor in custody or under security of the employer, in this case Kenya Maritime Authority. However, the Authority paid for these materials despite being held in unidentified/unknown site. Further, approved reports on the quantities of materials paid for were not availed for audit review.

Under the circumstances, the propriety of Kshs.346,409,290 on materials on site for the year ended 30 June 2019 could not be confirmed.

9.5 Payment of Rent

Included in the capital work in progress balance of Kshs.706,789,275 as at 30 June 2018 are payments for rent amounting to Kshs.2,070,000, being cost incurred by Kenya Maritime Authority to temporarily resettle tenants of reef apartment building whose stability was compromised during excavation for the foundation of the Headquarters building. However, the capitalization of the rent expense is contrary to International Public Sector Accounting Standard No. 17 Paragraph 30 which states that, 'The cost of an item of property, plant, and equipment comprises: (b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management'.

Further, Paragraph 30.3 of the conditions of contract under liability and insurance provides that, 'the contractor shall provide in joint names insurance cover that should have covered loss or damage to property in connection with the contract'. Therefore, the cost of rent should have been catered for by the cover. Also, Appendix to conditions of contract clearly provided Kshs.5,000,000 as the minimum for insurance of other property.

Consequently, the accuracy and validity of Kshs.2,070,000 in respect of work in progress as at 30 June 2018 could not be confirmed.

9.6 Raft Piling

Note 23 to the financial statements for the year ended 30 June 2018 reflects capital work in progress balance of Kshs.706,789,275. Included in this amount is Kshs.539,431,019, being payments for interim certificate numbers 2, 3 and 4. Records availed for audit review indicated that during site excavation, the contractor encountered a section of the plinth which did not conform to hard rock necessitating redesign of the basement raft to include tubular piling filled with reinforced concrete. The records further show that, the employer negotiated variation to works valued at Kshs.128,732,528 or 7.45% of the contract sum of Kshs.1,728,176,418 for raft piling. Further, the bill of quantities for the works provided for two hundred and ninety-six (296) piles to be driven down for a minimum of seven (7) meters while the actual depth was to be determined on site after completion. Interim certificate Number four (4) indicated that the Authority paid Kshs.93,650,107 for the piling works. However, measurement details of the actual piling and information regarding the number and depth of each pile were not availed for audit confirmation. Further, measurements on site were not provided to confirm whether amount paid was in line with the provision of the Bill of Quantity. In addition, payment for the certificate was 84% of the items provided in the Bill of Quantity which was not confirmed by actual measurement of piling done.

Consequently, the propriety and value for money for raft piling of Kshs.93,650,107 as at 30 June 2018 could not be confirmed.

9.7 Construction of Headquarters Subcontracts

Note 23 to the financial statements for the year ended 30 June 2018 reflects capital work in progress of Kshs.706,789,275. The capital work in progress relates to a contract for construction of Kenya Maritime Authority Headquarters at a contract sum of Kshs.1,728,176,418. Included in the contract sum are prime costs and provisional sums

amounting to Kshs.390,452,000 or 22.6%, contrary to the guidelines provided by Public Procurement Oversight Authority, 2007 which provide under Section VII Bills of Quantities Paragraph 3.0(d)(ii) that 'Provisional Sums to cover specialized works normally carried out by Nominated Sub Contractors should be avoided and instead Bills of Quantities of the specialized Works should be included as a section of the main Bill of Quantities to be priced by the Main Contractor. The Main Contractor should be required to indicate the name (s) of the specialized firms he proposes to engage to carry out the specialized Works as his approved domestic subcontractors. Only Provisional Sums to cover specialized Works by statutory authorities should be included in the Bills of Quantities'.

Further, review of sub contracts procurement indicated a provisional sum of Kshs.32,500,000 for installation of lift which was awarded to one of the bidding firms at a contract price of Kshs.29,183,369. However, due diligence report indicates that the company is owned by non-Kenyan citizens and no preference was provided in the bid document, contrary to Section 3(i) of the Public Procurement and Asset Disposal Act, 2015 which requires promotion of local industries, Section 155(3) b which requires preference to be given to firms where Kenyans are shareholders, and Section 157(8) which requires exclusive preference to be given to citizens where funding is 100% funded by National Government or a Kenyan Body and is below the prescribed threshold. Consequently, the Authority contravened the Law.

10.0 Mortgage Guarantees

As reported in the previous year, the statement of financial position as at 30 June 2018 reflects a balance of Kshs.212,970,203 in respect of mortgage guarantees. Information available indicates that the Authority has a staff car loan scheme with a balance of Kshs.30,500,000 and a housing mortgage scheme with a balance of Kshs.182,470,203 as at 30 June 2018, operated by Family Bank Ltd and Kenya Commercial Bank Ltd respectively. However, financial statements for the two schemes were not submitted to the Auditor-General for audit, contrary to Section 81(1 & 4) of the Public Finance Management Act, 2012 which requires that at the end of each financial year, the accounting officer for a national government entity shall prepare financial statements in respect of the entity and submit the same to the Auditor-General. In addition, Paragraph 5 of Part 4 of the Salaries and Remuneration Commission's Circular SRC/ADM/CIR/1/13 Vol.III (128) dated 17 December 2014 on the management of car loan and mortgage schemes for state officer requires each scheme to be subjected to annual audit of the government.

As a result, the accuracy, completeness and legality of mortgage guarantees balance of Kshs.212,970,2013 as at 30 June 2017 could not be confirmed

11.0 Trade and Other Payables from Exchange Transactions

The statement of financial position as at 30 June 2018 reflects trade and other payables from exchange transactions balance of Kshs.321,526,769 as disclosed in Note 24 to the financial statements. Included in this balance is Kshs.231,497,289 in respect to trade payables, out of which is Kshs.4,749,069 is owed to a supplier of which the creditors' balance confirmation letter indicated outstanding balance of Kshs.5,650,749, resulting to unexplained nor reconciled variance of Kshs.901,680.

Further, creditors balance confirmation letters sent to five (5) creditors with outstanding balances amounting to Kshs.12,808,769 were not responded to.

Consequently, the accuracy, completeness and validity of trade payables balance of Kshs.17,557,838 as at 30 June 2018 could not be confirmed.

12.0 Recruitment of Interns

Note 9 to the financial statements for the year ended 30 June 2018 reflects internship costs of Kshs.1,247,615 in respect of eighteen (18) interns engaged on the internship program during the year under review. However, the management did not avail information and records indicating how the interns were recruited, vetted and enrolled for the program. Further, applications, appointment letters and copies of academic certificates for seven (7) interns were not availed for audit review.

Consequently, the propriety of internship expenditure of Kshs.1,247,615 for the year ended 30 June 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Maritime 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 obtained is sufficient and appropriate to provide a basis for my adverse 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. Except for the matters described in the Basis for Adverse Opinion section, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matter

1.0 Budgetary Control and Performance

1.1 Revenue Budget

The statement of comparison of budget and actual amounts for the year ended 30 June 2018 reflects an approved revenue budget of Kshs.1,626,000,000. However, the Authority's actual revenue for the year amounted to Kshs.1,593,089,262, resulting to net under-collection of Kshs.32,910,738 or 2% as detailed below;

Revenue	Final Budget Kshs	Actual on Comparable Basis Kshs	Under Collection Variance Kshs	Over Collection Kshs	Percent Variance %
MS Levy	1,550,000,000	1,511,762,442	38,237,558	-	2.5
Rendering Service	17,150,000	12,303,460	4,846,540	-	28.3
Interest Income	50,000,000	58,283,664	-	8,283,664	16.6
Other Income	8,850,000	10,739,696	-	1,889,696	21.3
Total income	**1,626,000,000**	**1,593,089,262**	**43,084,098**	**10,173,360**	**2.0**

The material under-collection in rendering of service income of 28.3% was attributed to reduced inspection of vessels during the year and may affect achievement of the Authority's set objectives and planned activities. The over collection in interest income and other income of 16.6% and 21.3% respectively was as a result of investment of funds available for construction of the Authority's headquarter offices which had delayed in implementation and recognition of deferred incomes on capital grants from the National Government. However, the management should endeavor to align its budget to the expected revenue collections in order to avoid huge variances observed during the year under review.

1.2 Expenditure Budget

The statement of comparison of budget and actual amounts for the year ended 30 June 2018 reflects an approved total expenditure of Kshs.1,242,580,000 against actual expenditure of Kshs.912,144,323 resulting to net underutilization of Kshs.330,435,677 or 27% as detailed below;

Expenditure	Final Budget (Kshs)	Actual Expenditure (Kshs)	Under Utilization (Kshs)	Over Utilization (Kshs)	% Budget Under-Utilization
Employees Costs	454,540,000	439,962,404	14,577,596	-	3
Board of Directors Costs	68,480,000	39,592,348	28,887,652	-	42
Water and Electricity	8,500,000	5,097,289	3,402,711	-	40
Repairs and Maintenance	15,000,000	8,464,017	6,535,983	-	44
General Office Expenditure	648,560,000	375,973,734	272,586,266	-	42
Depreciation	47,500,000	40,789,863	6,710,137	-	14
Loss on Foreign Exchange Transactions	-	2,264,668	-	2,264,668	-100
Total	**1,242,580,000**	**912,144,323**	**332,700,345**	**2,264,668**	**27**

The huge net underutilization of Kshs.330,435,677 or 27% is a pointer to possible unrealistic budget and the management should review the budget making process with a view to coming up with realistic budgets for service delivery to citizens of Kenya. Underutilization may also affect delivery of goods and services.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion and Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Kenya Revenue Authority and Maritime Authority Revenue Collection Agency Agreement

The Kenya Maritime Authority (KMA) and the Kenya Revenue Authority (Kenya Revenue Authority) entered into a memorandum of understanding on 19 June 2013 where Kenya Revenue Authority was to offer agency services for monitoring, assessment, certification and collection of MSS levy. Kenya Revenue Authority was to collect the MSS Levy on behalf of Kenya Maritime Authority and remit the same to Kenya Maritime Authority bank accounts by the 10th of every succeeding month after the month of collection net of the agreed agency commission of 2% on the collections.

Kenya Revenue Authority further was to make available the documentation in regard to the amount collected to KMA. The MOU was for a period of three years ending 15 November 2015. The Memorandum of Understanding clause 5.5 required renewal by Kenya Maritime Authority giving three months' notice to Kenya Revenue Authority with intention of renewal. However, as at the time of audit February 2019 (four years and 2 months after the expiry of the MOU) the MOU had not been extended nor renewed. Kenya Maritime Authority has not given explanation as to why the same has not been renewed despite the fact that Kenya Revenue Authority continues to collect the levies on behalf of Kenya Maritime Authority. A review of the agreement indicated that there were no provisions of how the MSS levy collected by Kenya Revenue Authority would be confirmed and verified by Kenya Maritime Authority.

Consequently, Kenya Maritime Authority allowed Kenya Revenue Authority to collect MSS Levy without a valid agreement, and contravened the law by failing to establish a system of verifying the MSS Levy collected by its agent.

2.0 Employee Costs

The statement of financial performance for the period ended 30 June 2018 reflects Kshs. 439,962,404 in respect of employees costs as detailed in note 9 to the financial statements. The following observations were made;

2.1 Payment for Training Courses Not in the Training Plan

Included in employees costs is staff training expenditure of Kshs.128,273,058, out of which Kshs.3,761,605 is in respect of staff allowances paid for trainings which were not in the approved training plan for the year under review, contrary to Paragraph 3.0 of the guidelines to managing training in public service 2017 which states that "As per the Human Resource Development policy and other Human Resource Management & Development guidelines in the public service, planning for training shall be guided by the outcome of Training Needs Assessment and shall be designed in line with identified performance gaps linking training to closing of such gaps. Training will be planned to upgrade core competencies, knowledge, skills and attitudes of public servants, with the aim of enhancing service delivery."

Consequently, the management is in beach of the Human Resource Development policy.

2.2 Non-Recovery of Training Levy

Note 9 to the financial statements for the year ended 30 June 2018 reflects Kshs.128,273,058 in respect of staff training. Records availed for audit review indicated that the Authority sponsored employees to local and overseas trainings during the year. However, the management did not recover 20% training levy from employees sponsored for overseas and 10% training levy for those sponsored locally during the duration of the courses amounting to Kshs.4,894,500. This is contrary to Human Resource Policies and Procedures Manual for the Public Service of May 2016 Section H5 which states that, (1) 'Officers undertaking courses lasting more than four (4) weeks and above in local training institutions will be required to contribute to the cost of their training at the rate of ten percent (10%) of their basic salary per month for the duration of the course. (2) Officers attending courses lasting more than four (4) weeks in institutions outside the country will contribute at the rate of twenty percent (20%) of their basic salary per month for the duration of the course. This is regardless of whether the courses are sponsored by the Government of Kenya or by Development Partners through bilateral or multilateral arrangements'. Further no documentary evidence of recovery of Kshs.4,894,500 from the sponsored employees was availed for audit review.

Consequently, the management is in beach of the Human Resource Policies and Procedures Manual for the public service of May 2016 and the propriety of the expenditure amounting Kshs.4,894,500 for the year ended 30 June 2018 could not be ascertained.

2.3 Irregular Sponsorship of Undergraduate Courses

Note 9 to the financial statements for the year ended 30 June 2018 reflects Kshs.128,273,058 in respect of staff training. Included in this amount is Kshs.5,048,673, being tuition, subsistence allowances and airfares for two (2) employees undertaking various undergraduate courses abroad, contrary to Paragraph H.9(1) of Human Resource Policies and Procedures Manual for the Public Service of May 2016 which states that, 'The government shall not sponsor serving officers for undergraduate programs. Where there is need for skills at this level, the government will procure the same from the labor market'.

Further, the management did not provide details of how the training beneficiaries were selected in compliance with Public Service Commission Human Resources Policies Paragraph H.3(3) which states that, 'Selection of trainees for all training programs will be based on identified needs and will emphasize on training for performance improvement that address individual, organizational and national goals'.

Under the circumstances, the management is in beach of the Human Resource Policies and Procedures Manual for the Public Service of May 2016.

3.0 Lack of Approved Staff Establishment

The Kenya Maritime Authority's personnel records indicated that as at 30th June 2018, the Authority had one hundred and twenty-two (122) employees. However, the management did not provide an approved staff establishment indicating the maximum number of employees allowed in the existing positions in the Authority, contrary to Section 5(3) of the State Corporations Act Cap 446 which states that, 'A state corporation may

engage and employ such number of staff, including the chief executive, on such terms and conditions of service as the Minister may, in consultation with the Committee, approve'.

Under the circumstances, the Authority is in breach of the Law.

4.0 Salary Over Commitment

The Authority's payroll for the month of June 2018 indicated that it had made deductions on salaries of five (5) employees above the recommended percentage, contrary to section 19(3) of the Employment Act, 2007 which states that, 'total amount of all deductions made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages or such additional or other amount as may be prescribed by the Minister either generally or in relation to a specified employer or employee or class of employers or employees or any trade or industry'.

Consequently, the Authority is in breach of the law.

5.0 Employees Above the Age of Sixty (60) Years

The payroll for the year ended 30 June 2018 indicated that as at 30th June 2018, the Authority had incurred employee costs of Kshs.10,720,190 in respect to two (2) employees who were above the mandatory retirement age of sixty (60) years contrary to Public Service Commission Human Resource Policies of May 2016 Paragraph D1 which states that, 'All officers shall retire from the Service on attaining the mandatory retirement age of 60 years, 65 years for persons with disabilities and/or as may be prescribed by the government from time to time. The management did not avail for audit authority or approval from the head of Public Service to retain these employees in employment beyond the mandatory retirement age.

Consequently, the Authority was in breach of the Public Service Commission Human Resource Policies of May 2016.

6.0 Irregular Extension of Employees on Temporary Appointment

Note 9 to the financial statements for the year ended 30 June 2018 reflects staff wages of Kshs.5,305,851 in respect to nine (9) employees engaged on temporary basis. Payroll records availed for the audit review indicated that Kshs.1,732,000 was paid to four (4) employees who had been in service for more than twelve (12) months, contrary to Paragraph B.17 (5) of the Kenya Maritime Authority Human Resource Manual which states that, 'Temporary appointment; may be necessary to relieve employees on leave and perform short-term assignments. Appointment on temporary terms will apply to cases where the service of any employee would normally not be required beyond a period of twelve (12) months'.

Consequently, the Authority contravened its own Policy on engagement of temporary employees and the propriety of staff wages of Kshs.1,732,000 for the year ended 30 June 2018 could not be ascertained.

7.0 Procurement of Training Services from Non-Prequalified Suppliers

Note 9 to the financial statements for the year ended 30 June 2018 reflects Kshs.128,273,058 in respect of staff training. Included in this amount is Kshs.31,117,043 paid to five (5) institutions that offered training services to the Authority during the year. However, these institutions were not in the list of prequalified service providers for the period under audit review as detailed below:

No.	Description	Institution	Amount (Kshs)
1	Training Services	Citadel Consultants	367,500
2	Training Services	Bellie & Roaster Management Solutions	1,972,000
3	Training Services	Indepth Research Services	7,387,283
4	Training Services	Versed Professional Services Ltd	3,758,400
5	Training Services	Strathmore Business School	17,631,860
	TOTAL		**31,117,043**

The management did not provide satisfactory explanation as to how it identified and selected the training institutions.

Consequently, the Authority contravened the provisions of the Public Procurement and Assets Disposal Act 2015 and the propriety of staff training costs of Kshs.31,117,043 for the year ended 30 June 2018 could not be ascertained.

8.0 Irregular Recruitments

Personnel records of newly recruited staff indicated that the Authority engaged five (5) employees during the year ended 30 June 2018. However, job advertisement, a list of applications, applicants interview results and recommendations for employment were not availed for audit review. Further, of the five (5) employees recruited, one was engaged on contract basis at grade KMA 5, contrary to Paragraph B.19 (1) (iii) of the Kenya Maritime Authority Human Resource Manual which requires appointment on contract to be limited to senior levels as determined by the Board from time to time. According to the Authority's grading structure, senior levels range from KMA 1 to KMA 4.

Further, one employee was confirmed on permanent and pensionable terms as Assistant Legal Adviser on grade KMA 5. However, the employee's personal file showed that the employee was issued with two appointment letters dated 6th March 2017, one for grade KMA 6 with a gross salary of Kshs.105,500 per month and the other for grade KMA 5 with a gross salary of Kshs.130,000 per month. However, the employee was earning the salary based on grade KMA 5 during the year under review.

Consequently, the Authority was in breach of the law and the propriety of employee's cost of Kshs 1,560,000 for the year ended 30 June 2018 could not be ascertained.

9.0 Irregular Secondment of an Employee

Personnel and other records availed for audit review indicated that Kenya Maritime Authority's 97th full Board meeting held on 11th December 2017 approved the secondment of the Authority's grade KMA 5 staff to Lamu County Government for a term of five (5) years, contrary to Paragraph B.32(1) of the Kenya Maritime Authority Human

Resource Policy Manual which requires the secondment to be for officers on KMA 4 to KMA 2 for a period not exceeding three years, renewable once.

Consequently, the Board approval of secondment for an employee at grade KMA 5 is in breach of the Authority's policy.

10.0 General Office Expenditure

10.1 Entertainment Expenses

Note 13 to the financial statements for the year ended 30 June 2018 reflects Kshs.2,897,557 in respect of entertainment expenditure. Included in this amount is Kshs.1,114,262 paid to various suppliers and service providers who were not in the list of suppliers maintained by the Authority, contrary to Section 105 of the Public Procurement and Asset Disposal Act, 2015 which states that, 'A procuring entity may use a request for quotations from the register of suppliers for a procurement'.

Further, the expenditure included a total of Kshs.481,750 paid to a hotel engaged to provide lunch and snacks for a workshop in Kisumu. However, procurement minutes showed that the Authority opened and evaluated a bid from one supplier who was then awarded the tender, contrary to Section 106 (2) (d) of the Public Procurement and Asset Disposal Act, 2015 which states, 'at least three persons shall submit their quotations prior to evaluation.' In addition, the professional opinion indicated that quotations were sent on 30th May 2018 and closed on 31st May 2018 at 10:00am, thus denying the bidders adequate time to prepare a quotation, contrary to Section 105 (2) (c) of the Public Procurement and Asset Disposal Act, 2015 which states that, 'the accounting officer of a procuring entity shall give the request to each person early enough so that the person has adequate time to prepare a quotation'.

Consequently, the Authority was in breach of the Law and the propriety of entertainment costs of Kshs.1,596,012 for the year ended 30 June 2018 could not be ascertained.

10.2 Overseas Air Travel and Foreign Duty Travel Allowances

Note 13 to the financial statements for the year ended 30 June 2018 reflects Kshs.375,973,734 in respect of general office expenditure. Included in this amount is Kshs.22,474,260 in respect to domestic and overseas air travel costs and Kshs.69,794,866 in respect to duty travel allowances all totaling to Kshs.92,269,126. Records availed for audit verification of the domestic and overseas air travel and domestic and foreign duty travel allowances showed that air travel of Kshs.4,374,954 was paid for members of staff travelling abroad for various conferences, activities and trainings while Kshs.12,389,169 was paid as foreign duty travel all totaling to Kshs.16,764,123. However, foreign travel clearance for these employees was not availed for audit review contrary to Circular No. OP/CAB.9/9 by the Head of Public Service which requires officers travelling abroad to seek clearance from the Principal Secretary of the parent Ministry.

Consequently, the management is in breach of the travel guidelines and the propriety of overseas air travel and foreign duty travel allowances of Kshs.16,764,123 for the year ended 30 June 2018 could not be ascertained.

10.3 Payment for Unapproved Club Fees for Staff

Included in note 13 is Kshs.620,000 in respect of club fees. However, records availed for audit review indicated that on 21 December 2013, the Authority's Human Resource Department prepared a proposal for the employees in management positions to join a fitness club paid for by the employer. However, there was no evidence that the proposal had been approved by the Board for implementation which is empowered by Section 7 of the Kenya Maritime Authority Act to administer the assets and funds of the Authority in such manner and for such purpose as shall promote the best interests of the Authority in accordance with the Act.

Consequently, the management is operating the club membership without Board approval and the propriety of club fees of Kshs.620,000 for the year ended 30 June 2018 could not be ascertained.

11.0 Office Rent Prepayments

Note 17 to the financial statements for the year ended 30 June 2018 reflects Kshs.26,452,458 in respect of prepayments. Included in this amount is Kshs.1,000,000, being Lamu office rent prepayment for twenty (20) month period between July 2018 and February 2020. However, the advance payment was contrary to Section 146 of the Public Procurement and Asset Disposal Act, 2015 which states that, 'No works, goods or services contract shall be paid for before they are executed or delivered and accepted by the accounting officer of a procuring entity or an officer authorized by him or her in writing except where so specified in the tender documents and contract agreement. Such an advance payment shall not be paid before the contract is signed'. Further, there was no security provided by the landlord for the amount of the advance payment.

Consequently, the propriety, legality and validity of Kshs.1,000,000 Lamu office rent prepayment as at 30 June 2018 could not be confirmed.

12.0 Procurement of Desktop Computers

Note 23 to the financial statements for the year ended 30 June 2018 reflects Kshs.4,944,815 in respect of computers and IT equipment additions. Included in this amount is Kshs.2,876,364, being procurement of twenty-three (23) desk top computers. However, the procurement records availed for audit verification indicated that the evaluation committee for tender number KMA/COMP/002/2017 for supply of twenty-three (23) desktop computers, recommended award based on combined score for the technical and financial score as required by Section 86(b) of the Public Procurement and Asset Disposal Act, 2015 for request for proposals instead of award based on Section 86(a) which states that, 'the successful tender is, the tender with the lowest evaluated price'.

Further, the tender was awarded to a bidder whose CR12 indicated that the company was owned by non-Kenyans (Indian Nationals), contrary to Section 3(i) of the Public Procurement and Asset Disposal Act, 2015 which requires promotion of local industries, Section 155(3) b requires preference to be given to firms where Kenyans are shareholders and Section 157(8) requires exclusive preference shall be given to citizens where funding is 100% funded by National Government or a Kenyan Body and is below the prescribed threshold.

Consequently, the Authority was in breach of the Law and value for money on acquisition of computers of Kshs.2,876,364 could not be ascertained for the year ended 30 June 2018.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, because of the significance of the matters discussed in the Basis for Adverse Opinion and Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1.0 Board of Directors Costs

1.1 Allowances Paid for Activities Not in the Board Work Plan

Note 10 to the financial statements for the year ended 30 June 2018 reflects Kshs.32,011,026, being allowances and other expenses, out of which Kshs.9,794,613 was paid for activities that were not in the Board's annual work plan. These, events were known annual events which should have been included in the Board's annual work plan as tabulated below:

Details	Amount (Kshs)
IMO Meetings	4,960,833
ASK Shows	605,600
KECOSO Games	325,900
Lamu Festivals	257,400
Others	3,644,880
TOTAL	**9,794,613**

Consequently, the propriety and validity of Board of Directors costs of Kshs.9,794,613 for the year ended 30 June 2018 could not be confirmed.

1.2 Allowances Paid to Board of Directors Performing the Roles of Management

Note 10 to the financial statements for the year ended 30 June 2018 reflects Kshs.32,011,026, being allowances and other expenses, out of which Kshs.10,375,857 was paid for activities that were not part of the board's roles and functions but that of the management contrary, to Mwongozo Clause 1.9 which states that, 'the board should at a minimum focus on eight issues enumerated: (a) review of management's

implementation of strategies, policies and plans, (b) Risk assessment and management, (c) Budgeting and Financial management, (d) Quality Assurance processes, (e) Board evaluation, (d) Strategic planning and review, (e) Governance and compliance, (f) Competence development for Board members, as detailed below;

Details	Amount (Kshs)
IMO Meetings	4,960,833.20
ASK Shows	605,600.00
KECOSO Games	325,900.00
Lamu Festivals	257,400.00
Others	4,208,124.00
TOTAL	**10,357,857.20**

Consequently, the propriety and validity of Board of Directors expenditure of Kshs.10,357,857 for the year ended 30 June 2018 could not be confirmed.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (IPSAS) and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control.

In preparing the financial statements, management is responsible for assessing Kenya Maritime Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate Kenya Maritime Authority or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of Kenya Maritime Authority's financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of Kenya Maritime Authority's financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public money is applied in an effective manner in line with Article 229(6) of the Constitution of Kenya, 2010.

Those charged with governance are responsible for overseeing Kenya Maritime Authority's financial reporting process, reviewing the effectiveness of how the entity

monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion with limited assurance as to whether, in all material respects, the activities, financial transactions and information reflected in Kenya Maritime Authority's financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of Kenya Maritime Authority's financial statements and review of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of Kenya Maritime Authority's financial statements, whether due to fraud or error, design and perform audit

procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the 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 Kenya Maritime Authority's ability to continue as a going concern or 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 Kenya Maritime Authority to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of Kenya Maritime Authority's 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 Kenya Maritime 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

22 May 2019

XI. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018

Revenue from Non-Exchange Transactions	Note	2017-2018 Kshs	RESTATED 2016-2017 Kshs
Levies	3	1,511,762,442	1,327,603,245
		1,511,762,442	**1,327,603,245**
Revenue from Exchange Transactions			
Rendering Service	4	12,303,460	12,384,187
Finance Income	5	58,283,664	87,766,959
Other Income	6	10,739,696	11,680,494*
		81,326,820	111,831,640
Total Revenue		**1,593,089,262**	**1,439,434,885**
Expense			
Employee Costs	9	439,962,404	460,353,351
Board of Directors Cost	10	39,592,348	57,389,175
Water and Electricity	11	5,097,289	4,772,724
Repairs and Maintenance	12	8,464,017	9,123,678
General Office Expenditure	13	375,973,734	** 536,809,626
Depreciation	14	40,789,863	40,217,534
Total Expenses		**909,879,655**	**1,108,666,088**
Surplus from Operating Activities		**683,209,607**	**330,768,797**
Other Gains			
Gain on Sale of Assets	7	-	98,460
Loss on Foreign Exchange Transactions	8	(2,264,668)	343,121
Surplus before Distribution		**680,944,939**	**331,210,378**
90% Surplus to National Treasury	15	-	*** (125,795,775)
Surplus for the Period		**680,944,939**	**205,414,603**

The notes set out on pages 11 to 35 form an integral part of these Financial Statements.

Note: The accounts marked with asterisk (*) were restated as indicated below;

*** Other Income**

Deferred Income on three boats donated by the parent Ministry to the Authority had not been recognized from inception. The restatement is therefore the recognition of deferred income for the period as indicated below;

Description	Amount Kshs
Audited Accounts	6,578,673
Adjustment	5,101,821
Total	**11,680,494**

** **General Office Expenditure**

Accrued Alarm Service expenditure of Kshs 120,640 had not been recognized during the period. The expenses were also found to be out of balance by Kshs 127 thus the correction of the error as indicated below.

	Amount
Description	**Kshs**
Audited Accounts	536,689,113
Accrued Security Services	120,640
Errors	(127)
Total	**536,809,626**

*** **90% Surplus to National Treasury**

Authority had not provided for submission of 90% of surplus realized to The National Treasury as per the provision of Public Finance Management act. This has been provided for in line with the Act for remission to the National Treasury.

XIII. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

Assets	Note	2017-2018 Kshs	RESTATED 2016-2017 Kshs
Current Assets			
Cash and Cash Equivalents	16	989,042,065	1,118,558,045
Trade Receivable from Exchange Transactions	17	207,865,016	266,166,909
Trade Receivable from Non-Exchange Transactions	18	119,220,818	124,811,848
Inventories	19	4,492,008	3,434,786
Investments	21	383,251,600	-
Total Current Assets		**1,703,871,507**	**1,512,971,588**
Non-Current Assets			
Property, Plant & Equipment	23	1,078,016,509	396,495,689
Intangible Assets	22	7,559,389	13,980,101*
Mortgage Guarantees	20	212,970,203	156,655,845
Total Non-Current Assets		**1,298,546,101**	**567,131,635**
Total Assets		**3,002,417,608**	**2,080,103,223**
Liability			
Current Liability			
Trade and Other Payables from Exchange Transactions	24	321,526,769	74,299,195**
Gratuity	25	5,090,506	5,846,813
Surplus Funds Payable	26	667,331,223	667,331,223
Total Liabilities		**993,948,498**	**747,477,231**
Non-Current Liability			
Deferred Government Grant	27	25,509,105	30,610,926
Total Non-Current Liability		**25,509,105**	**30,610,926**
Total Liabilities		**1,019,457,603**	**778,088,157**
Net Assets			
Capital Reserve	XIV	76,771,434	76,771,434
Revenue Reserve	XIV	1,669,935,101	1,017,620,162
Revaluation Reserve	XIV	6,253,470	7,623,470
Oil Spill Response Mobilization Reserve	XIV	230,000,000	200,000,000
Total Net Assets		**1,982,960,005**	**1,302,015,066**
Total Net Assets And Liabilities		**3,002,417,608**	**2,080,103,223**

The Financial Statements set out on pages 1 to 37 were signed on behalf of the Board of Directors by:

Director General

Name: Mr. George N. Macgoye, EBS, OGW

PP

.....

Date 27.03.19

Head of Finance

Name: Mr. Edwin Were

ICPAK Member No: 8140

.....

Date 27/3/19

Chairman of the Board

Name: Mr. Geoffrey N. Mwango

.....

Date 27/3/19

Note:
The accounts with asterisk (*) was restated as indicated below;

* Intangible Assets

Amortization for the FY2014/2015 had not been recognized amounting to Kshs 4,543,551. This error has thus been corrected as indicated in the table.

	Amount
Description	**Kshs**
Balance as per Audited Accounts	18,523,651
Amortization on Intangible Assets	(4,543,551)
Rounding off	1
Total	**13,980,101**

** Trade and Other Payables from Exchange Transactions

Accrued Alarm Service expenditure of Kshs 120,640 had not been recognized during the period with a rounding off Kshs 3 thus the correction of the error as indicated below.

	Amount
Description	**Kshs**
Audited Accounts	74,178,558
Accrued Security Services	120,640
Rounding off	(3)
Total	**74,299,195**

XIV. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2018

	Capital	Revenue Reserves	Revaluation Reserves	Specific Reserves	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
Balance as at 30th June 2016	**117,586,100**	**1,383,182,660**	**7,623,571**	**170,000,000**	**1,678,392,331**
Surplus for the year	-	331,210,378	-	-	331,210,378
Revaluation Reserve	-	-	-	-	-
Transfer of excess depreciation on revaluation	-	-	-	-	-
Oil Spill Response Mobilization Fund	-	(30,000,000)	-	30,000,000	-
90% Operating Surplus	-	-	-	-	-
Adjustment (Prior Year)	(40,814,666)*	(666,772,876)**	(101)	-	(707,587,643)
Balance as at 30th June 2017	**76,771,434**	**1,017,620,162**	**7,623,470**	**200,000,000**	**1,302,015,066**
Surplus for the year	-	680,944,939	-	-	680,944,939
Revaluation Reserve	-	-	-	-	-
Transfer of excess depreciation on revaluation	-	1,370,000	(1,370,000)	-	-
Oil Spill Response Mobilization Fund	-	(30,000,000)	-	30,000,000	-
Donated assets	-	-	-	-	-
90% Operating Surplus	-	-	-	-	-
Adjustment (Prior Year)	-	-	-	-	-
Balance as at 30th June 2018	**76,771,434**	**1,669,935,101**	**6,253,470**	**230,000,000**	**1,982,960,005**

Note:

Prior Year Adjustments:

*** Capital:**

Three (3) Boats worth Kshs 40,814,568 were transferred from Capital Reserve to Deferred Income (Long term Liability) as per IPSAS 23. Subsequent depreciation amounts have been recognized as Deferred Income earned in the requisite period.

****Revenue Reserves:**

- 90% Surplus to National Treasury

Authority had not provided for submission of 90% of surplus realized to The National Treasury as per the provision of Public Finance Management act for the period FY2012/2013 to FY2016/2017. This has been provided for in line with the Act for remission to the Treasury.

- Deferred Income Recognized

Deferred Income on three boats donated by the parent Ministry to the Authority had not been recognized from inception. The restatement is therefore the recognition of deferred income for the period FY2015/2016 being 12.5% of Kshs 40,814,568.

XIII. STATEMENT OF CHANGES IN NET ASSETS (Continued)

- Amortization on Intangible Assets

Amortization for the FY2014/2015 had not been recognized amounting to Kshs 4,543,551. This error has thus been corrected as indicated in the table.

	Amount
Description	**Kshs**
90% Surplus to National Treasury	(667,331,223)
Deferred Income Recognized	5,101,821
Amortization on Intangible Assets	(4,543,551)
Errors	77
Total	**(666,772,876)**

Transfer of Excess depreciation on revaluation:
A motor vehicle (KAV 063E) which was revalued to Kshs 1,370,000 was sold thus the transfer from Revaluation Reserve to Revenue Reserve.

Nature and Purpose of Reserves

Revenue Reserves
These are surplus/deficits which the Authority has accumulated over the years.

Revaluation Reserves
The revaluation reserves are created by the revaluation surplus emanating from revaluation of Authority's assets from time to time.

Specific Reserves

i. **Oil Spill Mobilization Reserve**
This is a reserve set up for mobilizing services providers to conduct a cleanup in case of an oil spill incidence. This would minimize the response time to contain an oil spill and the impact on marine environment thereof. The funds are held as call deposits with the Kenya Commercial Bank. The reserve balance as at the end of 30th June 2018 was Kshs 100Million

ii. **Search and Rescue Mobilization Reserve**
This is a fund set up for mobilizing services providers to conduct a search and/or rescue in case of an accident at sea. This would minimize the response time to save lives and loss of life thereof. The funds are held as call deposits with the Kenya Commercial Bank. The reserve balance as at the end of 30th June 2018 was Kshs 130Million.

XV. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

	Note	2017-2018 Kshs	RESTATED 2016-2017 Kshs
Cash Flow From Operating Activities			
Operating Surplus		680,944,939	205,414,603
Depreciation	14	40,789,862	40,217,534
Gain on Disposal Of Non- Current Asset	7	-	(98,460)
Foreign Exchange (Gain) Loss	8	2,264,668	(343,121)
Interest Income	5	(58,283,664)	(87,766,959)
		665,715,805	**157,423,598**
Working Capital Changes			
Decrease In Trade Receivables	17& 18	63,892,924	(215,880,900)
Increase In Trade Payables	24	247,227,574	30,867,265
Decrease In Deferred Income	27	(5,101,821)	(5,101,821)
Decrease In Gratuity	25	(756,307)	(3,325,914)
Decrease In Inventories	19	(1,057,222)	1,186,558
Net Working Capital Changes		**304,205,148**	**(192,254,812)**
Net Cash Generated From Operating Activities		**969,920,953**	**(34,831,214)**
Investing Activities			
Purchase Of Property, Plant And Equipment	22 & 23	(715,889,970)	(142,201,245)
Proceeds From Sale Of Property, Plant And Equipment	7	-	98,460.00
Investment In Fixed Deposits And Long Term Deposits	20 & 21	(439,565,958)	(20,000,000)
Interest Income	5	58,283,664	87,766,959
Foreign Exchange (Gain) /Loss	8	(2,264,668)	343,121
Net Cashflow (Used In)/Generated In Investing Activities		**(1,099,436,932)**	**(73,992,705)**
Financing Activities			
90% Operating Surplus Remission	26	-	125,795,775
Net Cashflow (Used In)/Generated In Financing Activities		-	**125,795,775**
Net Increase / (Decrease) In Cash And Cash Equivalents		**(129,515,979)**	**16,971,856**
Cash And Cash Equivalent As At 01 July		1,118,558,045	1,101,586,189
Cash And Cash Equivalent As At 30 June		**989,042,065**	**1,118,558,045**

XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2018

Revenue	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	
	2017-2018	2017-2018	2017-2018	2017-2018	2017-2018	
MS Levy	1,950,000,000	(400,000,000)	1,550,000,000	1,511,762,442	(38,237,558)	-2%
Rendering Service	21,150,000	(4,000,000)	17,150,000	12,303,460	(4,846,540)	-28%
Finance Income	50,000,000	-	50,000,000	58,283,664	8,283,664	17%
Other Income	8,850,000	-	8,850,000	10,739,696	1,889,696	21%
Government Grants	40,000,000	(40,000,000)	-	-	-	0%
Total income	**2,070,000,000**	**(444,000,000)**	**1,626,000,000**	**1,593,089,262**	**(32,910,738)**	-2%
Expense						
Employee Costs	717,650,000	(263,110,000)	454,540,000	439,962,404	14,577,596	3%
Board of Directors Cost	68,960,000	(480,000)	68,480,000	39,592,348	28,887,652	42%
Water and Electricity	10,350,000	(1,850,000)	8,500,000	5,097,289	3,402,711	40%
Repairs and Maintenance	17,650,000	(2,650,000)	15,000,000	8,464,017	6,535,983	44%
General Office Expenditure	762,009,000	(113,449,000)	648,560,000	375,973,734	272,586,266	42%
Depreciation	47,500,000	-	47,500,000	40,789,863	6,710,137	5%
Loss on foreign exchange transactions	-	-	-	2,264,668	(2,264,668)	
Total Expenditure	**1,624,119,000**	**(381,539,000)**	**1,242,580,000**	**912,144,323**	**330,435,677**	27%
Surplus for the period	**445,881,000**	**(62,461,000)**	**383,420,000**	**680,944,939**	**(363,346,415)**	

Explanation of differences between Actual and Budgeted amounts (10% over/ under)

1. Rendering Service had an adverse variance of 28% which was due to reduced vessel inspection activities during the financial year. The watercraft census undertaken by the Maritime Safety Department during the 2nd and the 3rd quarter meant that time that significant amount of survey time was diverted to the census exercise.
2. Finance income had a positive variance of 17%, largely attributed to Management's decision to invest in Treasury Bills during the Financial Year. Slowdown in construction work availed more funds than anticipated for investment.
3. Other Income had a positive variance of 21% attributed to recognition of Deferred Income earned on Deferred Government grant during the period.
4. Board of Directors Cost had a positive variance of 42% due to austerity measures and fewer board members than anticipated during budgeting.

XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS (Continued)

Explanation of differences between Actual and Budgeted amounts (10% over/ under)

5. Water and Electricity had positive variances of 40% as planned branches were not opened.
6. Repairs and maintenance was 44% lower than anticipated due relatively new fleet of vehicles and boats.
7. General office Expenditure has a cumulative variance of 42% mainly due to implementation of austerity measures by management, planned activities not taking off during the reporting period, planned branches were not opened, to unforeseen court case on Director General Recruitment.
8. Depreciation had a positive variance of 14% as some planned assets acquisitions were not finalized within the period.
9. Loss on Foreign Exchange Transactions; The Authority does not budget for foreign exchange differences thus the variance.

Explanation of Changes between Original and Final Budget

Revenue	Original budget	Adjustments	Final budget	Reason
	2017-2018	**2017-2018**	**2017-2018**	
MS Levy	1,950,000,000	(400,000,000)	1,550,000,000	Due to changes in economic activities
Rendering Service	21,150,000	(4,000,000)	17,150,000	Due to changes in economic activities
Finance Income	50,000,000	-	50,000,000	-
Other Income	8,850,000	-	8,850,000	-
Government Grants	40,000,000	(40,000,000)	-	Support withdrawn by NT
Total income	**2,070,000,000**	**(444,000,000)**	**1,626,000,000**	
Expense				
Employee Costs	717,650,000	(263,110,000)	454,540,000	Due to freezing of employment
Board of Directors Cost	68,960,000	(480,000)	68,480,000	Board Chairman not appointed
Water and Electricity	10,350,000	(1,850,000)	8,500,000	Delay in opening branch offices
Repairs and Maintenance	17,650,000	(2,650,000)	15,000,000	Relatively new vehicles and delay in branch offices opening
General Office Expenditure	762,009,000	(113,449,000)	648,560,000	Austerity measures, deferment of some activities
Depreciation	47,500,000	-	47,500,000	-
Total Expenditure	**1,624,119,000**	**(381,539,000)**	**1,242,580,000**	
Surplus for the period	**445,881,000**	**(62,461,000)**	**383,420,000**	

XVII. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Kenya Maritime Authority is established by and derives its authority and accountability from KMA Act. The Authority is wholly owned by the Government of Kenya and is domiciled in Kenya. Kenya Maritime Authority's principal activity is to regulate, co-ordinate and oversee maritime affairs.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION– IPSAS 1

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying Kenya Maritime Authority accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note.
The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of Kenya Maritime Authority.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, KMA Act, and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. ADOPTION OF NEW AND REVISED STANDARDS

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

Standard	Impact
IPSAS 39: Employee Benefits	**Applicable: 1st January 2018** 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. The standard has no impact to the Authority as its pension scheme is a defined contribution scheme.

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

Standard	Effective date and impact:
IPSAS 40: Public Sector Combinations	**Applicable: 1st January 2019:** 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.

iii. Early adoption of standards

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

i) Revenue from non-exchange transactions – IPSAS 23

Fees/Levy

The Authority 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 Authority 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 Authority and can be measured reliably. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Revenue from exchange transactions – IPSAS 9

Rendering of services

The Authority 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

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 Authority. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or Authority 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

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 using independent external valuers.

d) Intangible assets

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

e) Research and development costs

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

f) Financial instruments

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 Authority 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. 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.

Held-to-maturity

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

Impairment of financial assets

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

1) The debtors or an Authority 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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

g) Inventories

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:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

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 Authority.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Contingent assets (Continued)

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. Authority has got two reserve in place; Oil spill and mobilization reserves for emergency SAR service. The two reverses 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.

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. There was no change in any accounting policy during the financial year.

k) Employee benefits

Retirement benefit plans

The Authority provides retirement benefit 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.

The scheme is being administered by Zamara Fanaka Retirement Fund (formerly Alexander Forbes Retirement Funds - Pension and Sections)

Rate of contribution for the period under audit is;-

From July to December 2017

- Self-7.5% of basic pay
- Employer 15% of basic pay

From January to June 2018

- Self-10% of basic pay
- Employer 20% of basic pay

l) Foreign currency transactions

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.

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.

The Authority regarded the Ministry of Transport And Infrastructure and Board of directors as related parties during the year. The following are transaction with related party for the year;

- Ministry of Transport And Infrastructure-Received grant Ksh 0.00
- Board of directors-Incurred the following cost for the board Kshs 39,592,348

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 amount at various commercial banks at the end of the financial year.

o) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

p) 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 Authority. 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 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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

- 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%
v.	Boats	12.5%

As at the end of the FY 2017/2018 fully Depreciated Assets amounted to Kshs. 170,807,398.

q) 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, 2018.

r) Taxation

Kenya Maritime Authority is a Government Agency fully owned by Ministry of Transport, Infrastructure & Urban Development thus exempt from Income Tax.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. Levies

Description	2017-2018 Kshs.	2016-2017 Kshs.
Merchant shipping levy	1,476,689,553	1,296,803,176
Collection cost (KRA commission)	35,072,889	30,800,069
Total Levies	**1,511,762,442**	**1,327,603,245**

The Merchant Shipping levy is a charge on all imported goods destined for the local market (Kenya) and export goods that are sea bound. The levies are collected by Kenya Revenue Authority on behalf of Kenya Maritime Authority through an agency agreement. The fees are based on the Fourth schedule of the Merchant Shipping (Fees) Regulations (2011).

4. Rendering of service

Description	2017-2018 Kshs.	2016-2017 Kshs.
Boat survey fees	6,921,501	6,999,127
Shipping agents fees	5,381,959	5,385,060
Total Rendering of Service Income	**12,303,460**	**12,384,187**

Boat survey fees are charges for inspection of ships and issuance of requisite certificates in accordance to First and Second schedules of the Merchant Shipping (Fees) Regulations (2011).

Shipping agents fees are the oversight and monitoring fees through issuance of requisite certificates in respect of Cargo consolidators, Shipping agents and Shipping lines in accordance to the Fourth schedule of Merchant Shipping (Fees) Regulations (2011).

5. Finance Income-External Investment

Description	2017-2018 Kshs.	2016-2017 Kshs.
Interest from Commercial Bank Deposits	23,651,340	87,766,959
Interest from Government Securities	34,632,324	-
Total Finance Income	**58,283,664**	**87,766,959**

Interest income from deposits are revenue earned on placing surplus funds in fixed deposits with Commercial Banks at competitively sought return rates while interest from Government securities are earned from investing in treasury bills.

6. Other Income

Description	2017-2018 Kshs.	2016-2017 Kshs.
Agency fee	2,104,377	1,441,893
Rental	937,811	738,449
Sale of books	394,436	765,670
Sale of tender document	1,000	3,000
Deferred Income Recognized	5,101,821	5,101,821
Others	2,200,251	3,629,661
Total Other Income	**10,739,696**	**11,680,494**

Agency fees are revenue earned from acting as a collection agent for the Government of DRC in respect to levy on cargo destined/from the Democratic Republic of Congo (DRC). Rental income is earned from subletting our Head Office space to the Government of DRC's office (OGEFREM). Sale of books are revenue earned from sale of curriculum books. Others include STCW & Medical Certificates fees, Training Fees, Accreditation Fees and Other Miscellaneous Income.

7. Gain on Sale of Assets

Description	2017-2018 Kshs.	2016-2017 Kshs.
Cost of the asset	-	2,278,516
Accumulated Depreciation	-	2,278,516
Net book value	-	-
Proceeds	-	98,460
(Loss)/Gain on disposal	**-**	**98,460**

Sale of assets are funds received from disposal of Assets as recommended by the disposal committee.

8. Foreign currency exchange gain

Description	2017-2018 Kshs.	2016-2017 Kshs.
Loss on foreign exchange transaction	(2,264,668)	343,121
	(2,264,668)	**343,121**

Foreign currency exchange gain/loss are obtained from exchange differences in revenues received/payments made in foreign currencies. The Authority's Merchant Shipping (Fees) Regulations (2011) indicates fees in USD.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. Employee costs

Description	2017-2018 Kshs.	2016-2017 Kshs.
Basic Salaries	192,470,507	167,248,624
House Allowances	35,560,536	30,181,426
Other Allowances	7,958,796	6,828,010
Leave Allowances	4,354,933	9,124,291
Commuter Allowances	22,523,143	19,355,699
Staff Wages	5,305,851	6,630,863
Internship	1,247,615	928,115
Entertainment	400,000	347,568
Staff Training	128,273,058	180,145,891
Induction and Orientation	-	627,050
Pension Expenditure	40,797,011	37,475,266
Recruitment	1,070,954	1,460,548
Total Employee Costs	**439,962,404**	**460,353,351**

10. Board of Directors costs

Description	2017-2018 Kshs.	2016-2017 Kshs.
Airfare	7,581,322	15,709,877
Allowance and other expense	32,011,026	41,173,492
Chairman's Honoraria	-	505,806
Total Board of Directors Costs	**39,592,348**	**57,389,175**

11. Purchase of Water & Electricity

Description	2017-2018 Kshs.	2016-2017 Kshs.
Water	863,487	755,148
Electricity	4,233,802	4,017,576
Total Purchase of Water and Electricity	**5,097,289**	**4,772,724**

12. Repairs and Maintenance

Description	2017-2018 Kshs.	2016-2017 Kshs.
Motor vehicle and Boats	1,161,081	2,336,185
Computer	5,183,382	3,065,546
Building	2,119,554	3,721,947
Total Repairs and Maintenance	**8,464,017**	**9,123,678**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. General Expenditure

Description	2017-2018 Kshs.	2016-2017 Kshs.
Domestic and Overseas Air Travel	22,474,260	37,614,339
Duty Travel Allowances - Domestic and Foreign	69,794,866	89,330,791
Conference and Seminars	41,065,129	82,295,469
Advertising	6,914,650	15,840,547
Publicity & Awareness	78,179,455	106,679,870
Medical and Group Accident Cover	30,741,323	34,292,764
Office Rent	10,552,076	11,918,185
HIV and AIDs related Awareness	7,535,484	5,045,251
Transport Hire	9,783,652	10,658,812
Fuel Costs	2,887,499	2,161,688
Library Expenses	465,535	706,017
Club Fees	620,000	-
Research and Development	7,622,990	12,456,690
Community Support	3,729,998	19,706,176
Bank Charges & Commissions	35,508,109	31,297,151
Security Services	6,143,360	7,081,510
Audit Fees	1,400,000	1,400,000
Professional & Consultancy Fees	5,506,635	25,988,691
Insurance	4,628,698	5,176,075
Legal Fees	4,895,220	1,127,189
Marine Safety & Env. Protection	105,882	3,118,650
Office Incidentals	2,791,111	4,232,686
Uniform and Clothing	360,599	2,306,816
Office Carpet and Curtain Cleaning	6,289,332	4,851,933
Entertainment	2,897,557	4,792,103
Printing and Stationery	3,548,654	4,043,866
Other Admin Expense	544,310	4,895,869
Communication Costs	8,987,350	7,790,488
Total General Expenditure	**375,973,734**	**536,809,626**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. Depreciation and Amortization Expense

Description	2017-2018 Kshs.	2016-2017 Kshs.
Property, Plant and Equipment	36,644,899	32,699,139
Intangible Assets	4,144,963	7,518,395
Total Depreciation and amortization	**40,789,862**	**40,217,534**

15. Provision of Surplus Funds to the National Treasury

Description	2017-2018 Kshs.	2016-2017 Kshs.
Surplus for the Year	680,944,939	331,210,378
Less: Purchase of Assets	(718,785,659)	(141,437,295)
Less: Oil Spill & SAR Fund Transfer	(30,000,000)	(30,000,000)
Less: Mortgage & Car Loan Guarantees	(55,000,000)	(20,000,000)
Realized Surplus Funds	(122,840,720)	139,773,083
90% of Realized Surplus Funds	-	**125,795,775**

16. Cash and Cash Equivalents

Description	2017-2018 Kshs	2016-2017 Kshs
Current Account	752,286,661	51,645,152
On-call Deposits	200,000,000	200,000,000
Fixed Deposit Accounts	-	850,000,000
Others	36,755,404	16,912,893
Total Cash and Cash Equivalents	**989,042,065**	**1,118,558,045**

16 (a). Detailed Analysis of the Cash and Cash Equivalents

Financial Institutions	Account Number	2017-2018 Kshs	2016-2017 Kshs
a) Current Account			
KCB Current Account (Ksh)	1101575093	747,033,514	49,168,893
KCB Current Account (Dollar)	1167698452	1,806,082	699,641.00
KCB Current Account-Kisumu (Ksh)	1111688923	2,500	2,500
KCB Current Account-Lamu (Ksh)	1215829051	3,769	-
KCB Current Account-Lodwar (Ksh)	1218308931	16,880	-
NBK Current (Dollar)	02003057729100	3,423,916	1,774,118
Sub-Total		**752,286,661**	**51,645,152**
b) On-Call Deposits			
Kenya Commercial Bank		200,000,000	200,000,000
Sub-Total		**200,000,000**	**200,000,000**
c) Fixed Deposit Accounts			
Kenya Commercial Bank		-	350,000,000
Cooperative Bank of Kenya		-	500,000,000
		-	**850,000,000**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. Cash and Cash Equivalents (Continued)

e) Others			
Petty Cash-Mombasa Office		28,450	25,585
Petty Cash-Lamu Office		-	-
Petty Cash-Turkana Office		-	-
KCB Savings Account	1107477549	30,900,323	901,393
Outstanding Imprest-Staff		5,502,693	14,004,356
Outstanding Imprest-Directors		323,938	1,981,559
Sub-Total		**36,755,404**	**16,912,893**
Grand Total		**989,042,065**	**1,118,558,045**

17. Trade Receivable from Exchange Transactions

Description	**2017-2018 Kshs**	**2016-2017 Kshs**
Trade	12,927,987	12,235,510
Interest receivable	28,610,157	51,911,712
Prepayments	26,452,458	22,242,956
Others non trade	143,935,471	183,837,788
Less: Provision for Doubtful debts	(4,061,057)	(4,061,057)
Total Trade Receivable from exchange transactions	**207,865,016**	**266,166,909**

18. Receivable from non-exchange transactions

Description	**2017-2018 Kshs**	**2016-2017 Kshs**
MS Levy fees	119,220,818	124,811,848
Total Receivable from non-exchange transaction	**119,220,818**	**124,811,848**

19. Inventories

Description	**2017-2018 Kshs**	**2016-2017 Kshs**
General supplies	4,135,036	2,965,439
Publications & library books	356,972	469,347
Total Inventories	**4,492,008**	**3,434,786**

20. Mortgage Guarantees

Description	**2017-2018 Kshs**	**2016-2017 Kshs**
House Loan Guarantee	182,470,203	126,155,845
Car Loan Guarantee	30,500,000	30,500,000
Total Mortgage Guarantees	**212,970,203**	**156,655,845**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Mortgage Guarantees Movement Schedule

Description	House Loan Guarantee	Car Loan Guarantee	Total
Description	**Kshs**	**Kshs**	**Kshs**
Balance as at 1st July 2017	**126,155,845**	**30,500,000**	**156,655,845**
Transfers	55,000,000	-	55,000,000
Interest Earned	1,314,358	-	1,314,358
Balance as at 30 June 2018	**182,470,203**	**30,500,000**	**212,970,203**

21. Investments

Description	2017-2018	2016-2017
Investment in Treasury Bills	**Kshs**	**Kshs**
Central Bank of Kenya:	383,251,600	-
Total Investments	**383,251,600**	**-**

22. Intangible Assets

	Intangible Assets	WIP	Total
	Kshs	**Kshs**	**Kshs**
As at 30 June 2017	**75,546,758**	**4,737,849**	**80,284,607**
Additions	-	(2,275,749)	(2,275,749)
As at 30 June 2018	**75,546,758**	**2,462,100**	**78,008,858**
As at 30 June 2017	**61,760,955**	**-**	**61,760,955**
Prior Year Adjustment	4,543,551*		4,543,551
As at 30 June 2017-Adjusted	**66,304,506**	**-**	**66,304,506**
Charge for the year	4,144,963	-	4,144,963
As at 30 June 2018	**70,449,469**	**-**	**70,449,469**
NBV as at 30 June 2018	**5,097,289**	**2,462,100**	**7,559,389**
NBV as at 30 June 2017	**9,242,252**	**4,737,849**	**13,980,101**

Asset Description	Purpose	Cost To Date Kshs
EDMS	Enhance paperless office	2,462,100
TOTAL		**2,462,100**

Note:

* Prior Year Adjustment:

Amortization for the FY2014/2015 had not been recognized amounting to Kshs 4,543,551. This error has thus been corrected as indicated in the movement schedule.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. Property, Plant and Equipment

Assets	Leasehold Land	Land & Building	Motor vehicles	Computers & IT Equipment	Furniture & Equipment	Capital in Progress	Total
Cost or Valuation		Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
As at 1 July 2016	203,097,950	4,390,414	40,775,336	50,268,259	113,496,261	-	412,028,220
Disposal				(2,004,027)	(368,489)	-	(2,372,516)
Additions		35,180,040	13,825,000	17,674,495	19,904,784	50,916,014	137,500,333
Re allocation		58,333		(200)		-	58,133
As at 30 June 2017	203,097,950	39,628,787	54,600,336	65,938,527	133,032,556	50,916,014	547,214,170
Disposal	-						-
Additions	-		12,228,300	4,944,815	45,739,283	655,873,261	718,785,659
Re allocation	-	(619,940)*					(619,940)
As at 30 June 2018	203,097,950	39,008,847	66,828,636	70,883,342	178,771,839	706,789,275	1,265,379,889
Depreciation and impairment							
As at 1 July 2016	-	-	18,887,112	48,284,536	54,013,400	-	121,185,048
Disposal	-	-	-	(1,910,027)	(368,489)	-	(2,278,516)
Charge for the year	-	-	10,396,807	8,576,546	13,725,786	-	32,699,139
Adjustments	-	-		(887,190)	-	-	(887,190)
As at 30 June 2017	-	-	29,283,919	54,063,865	67,370,697	-	150,718,481
Disposal	-	-	-				-
Charge for the year	-	-	10,662,263	7,633,703	18,348,933	-	36,644,899
Adjustments	-	-					-
As at 30 June 2018	-	-	39,946,182	61,697,568	85,719,630	-	187,363,380
Net Book values							
As at 30 June 2018	203,097,950	39,008,847	26,882,454	9,185,774	93,052,209	706,789,275	1,078,016,509
As at 30 June 2017	203,097,950	39,628,787	25,316,417	11,874,662	65,661,859	50,916,014	396,495,689

Note: The re-allocation of Kshs 619,940 from Land & Building was Lawyer Mwangi Njenga legal fee of Kshs 466,320 and refund due to KMA of Kshs 153,620.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. Property, Plant and Equipment (Continued)

As at close of financial year assets amounting to Kshs 170,807,398 were fully depreciated as indicated in the table below:

DESCRIPTION	COST	ACCUMULATED DEPRECIATION	NBV
Motor Vehicles	13,517,318	13,517,318	-
Computers	48,264,031	48,264,031	-
Furniture & Equipment	35,140,504	35,140,504	-
Software	73,885,545	73,885,545	-
TOTAL	**170,807,398**	**170,807,398**	**-**

24. Trade and other payables from exchange transaction

Description	2017-2018 Kshs.	2016-2017 Kshs.
Trade Payables	231,497,289	57,121,528
Audit Fees Payable	1,400,000	1,400,000
Staff payables	108,715	185,661
Statutory	1,340,570	1,786,946
Other payable	87,180,195	13,805,060
Total	**321,526,769**	**74,299,195**

25. Gratuity

Description	2017-2018 Kshs.	2016-2017 Kshs.
As at 1 July	5,846,813	9,172,726
Charge for the year	2,793,350	4,725,296
Payment during the year	(3,549,657)	(8,051,209)
As at 30 June 2015	**5,090,506**	**5,846,813**

26. Surplus Funds Payable

Description	2017-2018 Kshs.	2016-2017 Kshs.
Surplus Funds Payable	667,331,223	667,331,223
Total	**667,331,223**	**667,331,223**

26(a). Surplus Funds Payable Movement Schedule Description	2017-2018 Kshs.	2016-2017 Kshs.
As at 1 July	667,331,223	541,535,449
Realized Surplus Funds	-	125,795,775
Payment during the year	-	-
As at 30 June	**667,331,223**	**667,331,223**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26(b). Surplus Funds Payable Computation

	FY2012/2013	FY2013/2014	FY2014/2015	FY2015/2016	FY2016/2017	Totals
DESCRIPTION	**Kshs.**	**Kshs.**	**Kshs.**	**Kshs.**	**Kshs.**	**Kshs.**
Surplus for the Year	297,826,815	269,280,283	370,728,308	320,329,991	331,210,378	**1,589,375,775**
Less: Purchase of Assets	(31,313,698)	(28,961,089)	(249,876,287)	(80,808,269)	(141,437,295)	**(532,396,638)**
Less: Oil Spill & SAR Fund Transfer	(30,000,000)	(40,000,000)	(40,000,000)	(30,000,000)	(30,000,000)	**(170,000,000)**
Less: Mortgage & Car Loan Guarantees	-	(100,000,000)	(10,500,000)	(15,000,000)	(20,000,000)	**(145,500,000)**
Realized Surplus Funds	236,513,117	100,319,194	70,352,021	194,521,722	139,773,083	**741,479,137**
90%of Realized Surplus Funds	**212,861,805**	**90,287,275**	**63,316,819**	**175,069,550**	**125,795,775**	**667,331,223**

27. Deferred Government Grant

	2017-2018	2016-2017
Description	**Kshs**	**Kshs**
National government	25,509,105	30,610,926
Total deferred income	**25,509,105**	**30,610,926**

The deferred income movement is as follows:

	National Government
Balance brought forward	**30,610,926**
Additions	-
Transfers to Capital fund	-
Transfers to income statement	(5,101,821)
Other transfers	-
Balance carried forward	**25,509,105**

28. FINANCIAL RISK MANAGEMENT

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 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 only extended to customers with an established credit history.

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.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the Authority's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Total amount	Fully performing	Past due	Impaired
	Kshs	Kshs	Kshs	Kshs
At 30 June 2018				
Receivables from exchange transactions	207,865,015	195,680,002	12,185,013	-
Receivables from non exchange transactions	119,220,818	125,047,449	-	-
Bank balances	989,042,065	989,042,065	-	-
Total	**1,316,127,898**	**1,309,769,516**	**12,185,013**	**-**
At 30 June 2017				
Receivables from exchange transactions	266,166,909	256,826,125.73	9,340,783	
Receivables from non exchange transactions	124,811,848	124,811,848	-	-
Bank balances	1,118,558,045	1,118,558,045	-	-
Total	**1,509,536,802**	**1,500,196,019**	**9,340,783**	**-**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. FINANCIAL RISK MANAGEMENT (Continued)

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

(ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Authority's 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 table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2018				
Trade payables	209,200,647	6,547,492	15,749,150	**231,497,289**
Provisions	47,340,473	21,667,043	697,641,465	**766,648,981**
Deferred Government Grant	-	-	25,509,105	**25,509,105**
Total	**256,541,121**	**28,214,535**	**738,899,720**	**1,023,655,375**
At 30 June 2017				
Trade payables	42,648,991	4,277,656	12,167,489	**59,094,136**
Provisions	14,155,060	350,000	678,075,808	**692,580,868**
Deferred Government Grant	-	-	30,610,926	**30,610,926**
Total	**56,804,051**	**4,627,656**	**720,854,223**	**782,285,930**

(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.

28. FINANCIAL RISK MANAGEMENT (Continued)

Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company'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.

a) Foreign currency 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 after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate. The carrying amount of the Authority's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Ksh	**Other currencies**	**Total**
	Kshs	**Kshs**	**Kshs**
At 30 June 2018			
Financial assets(investments, cash ,debtors)	1,656,930,046	16,050,314	1,672,980,360
Liabilities			
Trade and other payables	319,799,708	1,529,374	321,329,082
Net foreign currency asset/(liability)	**1,337,130,338**	**14,520,940**	**1,351,651,277**

The Authority manages foreign exchange risk form future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

	Ksh	**Other currencies**	**Total**
	Kshs	**Kshs**	**Kshs**
At 30 June 2017			
Financial assets(investments, cash ,debtors)	1,494,827,533	14,709,269	1,509,536,802
Liabilities			
Trade and other payables	73,511,301	787,894	74,299,195
Net foreign currency asset/(liability)	**1,421,316,232**	**13,921,375**	**1,435,237,607**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

a) Foreign currency risk (Continued)

Foreign currency sensitivity analysis

The following table demonstrates the effect on the company's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

	Change in currency rate	Effect on Profit before tax	Effect on equity
	Kshs	Kshs	Kshs
2018			
USD	10%	1,452,094	1,452,094
2017			
USD	10%	1,392,137	1,392,137

b) 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 company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

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

Sensitivity analysis

The Authority analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of KShs 6,505,938 (2017: KShs 9,804,367). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs 32,529,688 (2017 – KShs 49,021,837).

28. FINANCIAL RISK MANAGEMENT (Continued)

iv) Capital Risk Management

The objective of the Authority's capital risk management is to safeguard the Board's ability to continue as a going concern. The Authority capital structure comprises of the following funds:

	2017-2018	2016-2017
	Kshs	Kshs
Revaluation reserve	6,253,470	7,623,470
Retained earnings	1,669,935,101	1,017,620,162
Capital reserve	76,771,434	76,771,434
Specific reserves	230,000,000	200,000,000
Total funds	**1,982,960,005**	**1,302,015,066**
Total borrowings	0	0
Less: cash and bank balances	989,042,065	1,118,558,045
Net debt/(excess cash and cash equivalents)	(989,042,065)	(1,118,558,045)
Gearing	0%	0%

29. RELATED PARTY BALANCES

Nature of related party relationships

Entities and other parties related to the Authority include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

Government of Kenya

The Government of Kenya is the principal shareholder of the *Authority*, holding 100% of the *Authority's* equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the Authority, both domestic and external. Other related parties include:

i) The National Government;
ii) The Parent Ministry;
iii) Key management;
iv) Board of directors;

29. RELATED PARTY BALANCE (Continued)

	2018	2017
	Kshs	Kshs
Transactions with related parties		
a) Sales to related parties		
Sales of goods	-	-
Sales of services	-	-
Total	**-**	**-**
b) Grants from the Government		
Grants from National Government	-	-
Grants from County Government	-	-
Donations in kind	-	-
Total	**-**	**-**
c) Expenses incurred on behalf of related party		
Payments of salaries and wages	-	-
Payments for goods and services	-	-
Total		
d) Key management compensation		
Directors' emoluments	23,268,594	33,601,661
Compensation to the CEO	-	-
Compensation to key management	28,109,729	21,818,814
Total	**51,378,323**	**55,420,475**

30. CAPITAL COMMITMENTS

Capital commitments	2017-2018	2016-2017
	Kshs	Kshs
Authorised and contracted for	1,904,239,939	1,825,239,939
Total	**1,904,239,939**	**1,825,239,939**

31. DIVIDENDS/SURPLUS REMISSION

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. The Authority awaits concurrence from The National Treasury on the recomputed surplus on Audited financial statements for the period FY2012/13 to FY2016/17 of Kshs 667,331,223 before payment.

32. EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting and non- adjusting events after the reporting period.

33. ULTIMATE AND HOLDING AUTHORITY

Kenya Maritime Authority is a State Corporation under the Ministry of Transport & Infrastructure, Housing and Urban Development. Its ultimate parent is the Government of Kenya.

34. CURRENCY

The financial statements are presented in Kenya Shillings (Kshs).

XVIII. 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 *(Name and designation)*	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
1.1	Construction of office block.	Tender sum was corrected through an addendum to the main contract	Jane Florence CS&HLS	Resolved	N/A
1.2	Purchase of Land for Search and Rescue centers	Still reviewing the case for appropriate action	Edwin Momanyi PM	Not Resolved	December 2018
2	Mortgage Guarantees	Awaiting correct from the OAG office	Edwin Were FM	Not Resolved	December 2018
3	Merchant Shipping Levy	Acquisition of system underway	John Omingo/ Alphonse Kioko HCS and ICTM	Not Resolved	December 2018
4	Investments	All FDR liquidated. Investment current in GOK T Bills	Edwin Were FM	Resolved	N/A
5.1	Board of Directors Costs: Excessive expenditure	Board Members notified about the OAG comments	Jane Florence CS&HLS	Resolved	N/A
5.2	Board of Directors Costs: Irregular Sittings	Board Members notified about the OAG comments	Jane Florence CS&HLS	Resolved	N/A
6.1	Recruitment	Comments noted for future consideration	Joel Bii HRAM	Resolved	N/A
6.2	Staff Training	Comments noted and actioned.	Joel Bii HRAM	Resolved	N/A
7	Duty Travel allowances	Comments noted for future consideration	George Macgoye Ag. DG	Resolved	N/A

Ag. Director General

Date 27.03.19

Chairman of the Board

Date 27/3/19

XIX. Appendix 1: PROJECTS IMPLEMENTED BY KENYA MARITIME AUTHORITY

Status of Projects completion

	STATUS OF PROJECTS COMPLETION					
	Project	**Total project Cost**	**Total expended to date**	**Completion % to date**	**Budget**	**Sources**
1	Research & Development	58M	7.6M	13.1%	58M	KMA
2	Enterprise Management System and EDM	10.5M	0	0%	10.5M	KMA
3	Purchase For Motor Vehicle	15M	12.2M	100%	15M	KMA
4	Construction of KMA Headquarters	1800M	707M	36%	1,000M	KMA
5	Installation On Maritime Communication And Search And Rescue For Lake Victoria	529M	0	0%	79M	AFDB
6	Integrated Coastal Security Surveillance System	50M	0	0%	50M	IMO/DENMARK/GOK
7	Patrol Boats-Mombasa, Kisumu and Turkana	42.8M	42.8M	100%	50M	KMA
8	GMDSS Communication system	50M	0	0%	5M	KMA
9	Construction of SAR office in Kwale	10.4M	0	0%	50M	KMA
10	Digitization of documents(EDMs)	4M	0	0%	4M	KMA
11	Disaster Recovery set up	8M	0	0%	8M	KMA
12	NMOSCP -Oil Spill Response Mobilization Fund	10M	10M	100%	10M	KMA
13	Mobilization Fund for Emergency SAR services	20M	20M	100%	20M	KMA
14	Office Furniture & Equipment	5M	3.7M	74%	5M	KMA
15	Computer equipment	10M	4.9M	49%	10M	KMA
16	Construction of Kisumu office-(co-financing)	15M	0	0%	15M	KMA
17	Information Resource Centre	5.5M	0.27M	5%	5.5M	KMA
18	Software	11M	0	0%	11M	KMA
19	Staff House Loan Investment	60M	55M	92%	60M	KMA
20	Staff Car Loan Investment	15M	0	0%	15M	KMA

XX. Appendix 2: INTER-AUTHORITY TRANSFERS

	AUTHORITY NAME:	**KENYA MARITIME AUTHORITY**		
	Break down of Transfers from the State Department of Transport			
	FY 17/18			
a.	Recurrent Grants			
		Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
		N/A	NIL	N/A
		Total	-	

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

Finance Manager
Kenya Maritime Authority

Sign ----------

Head of Accounting Unit
Ministry of Transport, Infrastructure, Housing and Urban Development

Sign----------