

REPUBLIC OF KENYA



**KENYA NATIONAL AUDIT OFFICE**



**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
KENYA PIPELINE COMPANY LIMITED**

**FOR THE YEAR ENDED  
30 JUNE 2014**

**KENYA PIPELINE COMPANY LIMITED**

**ANNUAL REPORTS  
AND  
FINANCIAL STATEMENTS**

**30 JUNE 2014**

KENYA PIPELINE COMPANY LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2014

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# KENYA PIPELINE COMPANY LIMITED

## CORPORATE INFORMATION

### DIRECTORS

Mr. Daniel K. Wamahiu  
Mr. Charles K. Tanui  
Mr. Waithaka Kioni  
Mr. Joseph I. Kinyua  
Mrs. Faith Jepkemboi Bett - Boinett  
Mrs. Nuru Bwanakombo Mzee  
Mrs. Habon Billow Farah  
Mr. Austin Kapere  
Mrs. Felicity N. Biriri  
Principal Secretary, Treasury (Alternate - Festus King'ori)  
Principal Secretary, Ministry of Energy & Petroleum (Alternate - Francis Ongaki)

Chairman  
Managing Director

### COMPANY SECRETARY

Mrs Flora Okoth  
P. O. Box 73442 - 00200  
Nairobi

### REGISTERED OFFICE

Kenpipe Plaza  
Sekondi Road  
Off Nanyuki Road  
Industrial Area  
P. O. Box 73442 -00200  
Nairobi

### AUDITORS

The Auditor General,  
Kenya National Audit Office  
P. O. Box 30084 – 00100  
Nairobi

### PRINCIPAL BANKERS

Commercial Bank of Africa Limited, Wabera Street  
P. O. Box 30437 – 00100  
Nairobi

CfC Stanbic Bank Limited  
CFC Centre Chiromo Road  
P. O. Box 72833 – 00200  
Nairobi

Equity Bank  
Kenpipe Plaza, Sekondi Road.  
Off Lunga Lunga Road  
P. O. Box 78569-00507  
Nairobi

Citibank, N.A.  
Citibank House  
Upper Hill Road  
P. O. Box 30711-00100  
Nairobi

### PRINCIPAL ADVOCATES

Mohamed Muigai Advocates  
MM Chambers 4th Floor  
P. O. Box 61323-00200  
Nairobi

Ochieng, Onyango, Kibet & Ohaga  
5<sup>th</sup> Floor Block C, ACK House  
1<sup>st</sup> Ngong Avenue, Off Bishop's Road  
P. O. Box 43170- 00100  
Nairobi

**KENYA PIPELINE COMPANY LIMITED**  
**REPORT OF THE DIRECTORS**

The directors present their report together with the audited financial statements for the year ended 30 June 2014.

**ACTIVITIES**

The principal activity of the company is transportation and storage of refined petroleum products.

<b>RESULTS</b>	<b>Kshs'000</b>
Profit before taxation	10,222,945
Taxation charge	(3,120,162)
	—————
Profit for the year transferred to retained earnings	7,102,783
	=====

**DIVIDEND**

The directors do not recommend payment of a dividend in respect of the year (2013 – Nil).

**DIRECTORS**

The current Board of Directors is shown on page 2. Mr. Daniel K Wamahiu was appointed as the chairman of the Board of Directors on 10 January 2014 in place of Mr Samuel M Maluki who retired. Mr. Charles K Tanui was appointed the Managing Director with effect from 3 January 2014 in place of Mr. Selest N Kilinda who retired on 26 June 2013. In the intervening period, Mr Charles K Tanui was the acting Managing Director.

**AUDITORS**

The Auditor General is responsible for the statutory audit of the company's financial statements in accordance with Section 14 of the Public Audit Act, 2003. Section 39(1) of the Act empowers the Auditor General to appoint other auditors to carry out the audit on his behalf. Accordingly, Deloitte & Touche were appointed during the year to carry out the audit for the year ended 30 June 2014.

BY ORDER OF THE BOARD

Secretary

Nairobi



31 March 2015

KENYA PIPELINE COMPANY LIMITED

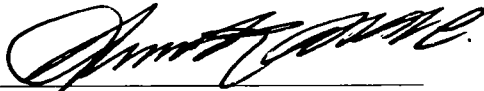
STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company for the year. It also requires the directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or errors, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

31 March 2015

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## **OFFICE OF THE AUDITOR-GENERAL REPORT OF THE AUDITOR-GENERAL ON KENYA PIPELINE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2014**

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### **REPORT ON THE FINANCIAL STATEMENTS**

The accompanying financial statements of Kenya Pipeline Company Limited set out on pages 8 to 48, which comprise the statement of financial position as at 30 June 2014, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes have been audited on my behalf by Deloitte and Touche, auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

#### **Management's responsibility for the Financial Statements**

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

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

#### **Auditor-General's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the Company's

preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

### **Basis of Qualified Opinion**

#### **1. Impairment of long outstanding and disputed trade and other receivables**

Trade and other receivables balance of Kshs.9,558,746,000 (2013 – Kshs.7,893,802,000), disclosed in note 20 to the financial statements includes:

- (i) An amount of Kshs.3,788,457,569 (2013 – Kshs.3,788,457,569) due from an oil marketing company, dating back to year 2009 which has been the subject of a court case. As at the time of finalization of this audit exercise, the court proceedings were still going on but there was no bad debt provision in the financial statements.
- (ii) Also, the trade and other receivables balance includes an amount of Kshs.414,446,165 in respect of long outstanding receivables which are not supported with documentations.  
Under the circumstances, it was not possible to confirm whether the trade and other receivables balance of Kshs.9,558,746,000 shall be realized.

#### **2. Fuel Inventory Deficit**

As explained under note 31 to the financial statements, the third party fuel stock held by the company have significant deficit between the records and the physical quantities ascertained through the annual fuel dip procedures by 12,968M<sup>3</sup> (2013 – 29,964M<sup>3</sup>) which represents a Hydro-Carbon Value (HCV) of Kshs.906,579,768 (2013 – Kshs.1,962,350,945). No provision has been made for the shortfall as reconciliation was explained to be underway. Consequently, it is not possible to confirm the carrying value of the fuel stock held on behalf of the oil companies.

#### **3. Property, Plant and Equipment and Leasehold Land**

- (i) Included in the property, plant and equipment balance of Kshs.41,264,151,000 is an amount of Kshs.3,880,310,000 relating to capital work in progress out of which Kshs.1,746,473,000 relates to old/stalled projects, some dating back to year 2007 and are therefore likely to impaired.

- (ii) A valuation of the company's property, plant and equipment and leasehold land was carried out as at 30 June 2013. However, the valuation report was not reconciled to the fixed assets register and as a result:
- (a) Assets valued at Kshs.754,516,200 as per the valuer's report are yet to be uploaded into the fixed asset register and are thus not included in these financial statements.
  - (b) Included in the property, plant and equipment and leasehold land is a net revaluation deficit of Kshs.179,177,000 and a revaluation surplus of Kshs.340,000,000 respectively which have been reported in the financial statements without necessary supporting schedules of the assets to which the balances relate.
  - (c) There was an unreconciled difference of Kshs.20,468,199 between the detailed fixed asset register and the property, plant and equipment balance as reflected in these financial statements with the register reflecting a higher balance.
  - (d) Included in the company's records as at 30 June 2014 was a lease land property – Embakasi depot plot LR 9042/225 carried in the book at a net book value of Kshs.899,242,424. However, the company does not have title documents for the property other than an allotment letter issued in 1994. Information available indicates the title deed was given to Kenya Airports Authority. In absence of a title deed, it is not possible to ascertain the beneficial ownership of the property by the company.

Consequently, in light of the above paragraphs, it was not possible to ascertain whether the property, plant and equipment and leasehold land balance is accurate.

#### **4. Late Submission of the Financial Statements**

The company's financial statements for the financial year 2013/2014 were signed by the Directors and submitted for audit on 31 March 2015, six months after the statutory deadline date of 30 September 2014. The Company is therefore in breach of Section 13 of the Public Audit Act, 2003.

#### **Qualified Opinion**

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap.486 of the Laws of Kenya.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, I report based on my audit that:

- i) 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,
- ii) In my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books; and,
- iii) The Company's statement of financial position is in agreement with the books of account.



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

**Nairobi**

**15 May 2015**

KENYA PIPELINE COMPANY LIMITED

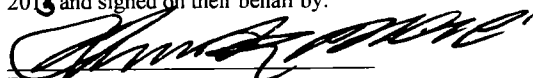
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2014

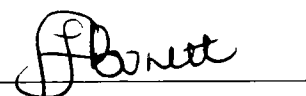
		2014	2013 (Restated)
	Note	Kshs'000	Kshs'000
REVENUE	5	20,055,532	18,487,065
DIRECT COSTS	6	(6,912,545)	(6,947,721)
<b>GROSS PROFIT</b>		<b>13,142,987</b>	<b>11,539,344</b>
OTHER INCOME	7	283,926	247,891
FINANCE INCOME	8(a)	156,905	366,723
FOREIGN EXCHANGE GAINS/(LOSSES)	8(b)	101,511	(64,534)
FINANCE COSTS	8(c)	-	(240,677)
ADMINISTRATION EXPENSES	9	(3,462,384)	(3,737,630)
<b>PROFIT BEFORE TAXATION</b>		<b>10,222,945</b>	<b>8,111,117</b>
TAXATION CHARGE	11(a)	(3,120,162)	(1,381,198)
<b>PROFIT AFTER TAXATION</b>		<b>7,102,783</b>	<b>6,729,919</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Surplus on revaluation of property and equipment		-	16,941,791
Deferred tax on revaluation surplus (note 33(iii))		-	(5,082,537)
Adjustment in surplus on revaluation of property and equipment		40,367	-
Deferred tax on the adjustment on revaluation of property and equipment		(12,110)	-
		<b>28,257</b>	<b>11,859,254</b>
Remeasurement of defined benefit obligation	18(b)	(51,095)	609,983
Deferred tax relating to remeasurement of defined benefit obligation		15,329	(182,995)
		<b>(35,766)</b>	<b>426,988</b>
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>		<b>(7,509)</b>	<b>12,286,242</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>7,095,275</b>	<b>19,016,161</b>
		=====	=====
		KShs	KShs
EARNINGS PER SHARE	12	390	370
		=====	=====

**KENYA PIPELINE COMPANY LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2014**

		2014	2013	1 July 2012
		Kshs'000	(Restated) Kshs'000	(Restated) Kshs'000
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Property, Plant and Equipment	14	41,264,151	40,333,480	29,985,536
Leasehold Land	15	5,127,880	5,217,229	38,223
Intangible Assets	16	2,985	6,910	109,392
Investments	17	67,032	67,032	67,032
Retirement Benefit Recoverable	18	1,407,397	1,320,984	648,673
Trade and Other Receivables	20	118,293	159,107	155,475
<b>Total Non-Current Assets</b>		<b>47,987,738</b>	<b>47,104,742</b>	<b>31,004,331</b>
<b>Current Assets</b>				
Inventories	19	1,443,982	1,128,042	1,025,571
Trade and Other Receivables	20	9,440,453	7,824,695	6,474,012
Taxation Recoverable	11(c)	-	991,313	46,719
Government Securities	21	104,316	100,000	100,000
Short Term Deposits	22(a)	5,938,961	1,982,203	3,567,069
Bank and Cash Balances	22(b)	5,143,892	2,336,745	3,977,012
<b>Total Current Assets</b>		<b>22,071,604</b>	<b>14,362,998</b>	<b>15,190,383</b>
Non-Current Assets Classified As Held For Sale	23	-	23,255	35,361
<b>Total Assets</b>		<b>70,059,342</b>	<b>61,490,995</b>	<b>46,230,075</b>
<b>SHAREHOLDER'S FUNDS AND LIABILITIES</b>				
<b>Capital And Reserves</b>				
Share Capital	24	363,466	363,466	363,466
Share Premium		512,289	512,289	512,289
Retained Earnings		47,394,969	40,327,952	33,551,045
Revaluation Reserve		11,887,512	11,859,254	-
		<b>60,158,236</b>	<b>53,062,961</b>	<b>34,426,800</b>
<b>Non-Current Liabilities</b>				
Deferred Taxation	25	5,913,210	5,882,037	826,886
Long Term Loan	27(c)	-	-	6,450,541
<b>Total Non-Current Liabilities</b>		<b>5,913,210</b>	<b>5,882,037</b>	<b>7,277,427</b>
<b>Current Liabilities</b>				
Trade And Other Payables	26(a)	3,465,254	2,243,391	2,095,555
Due To Related Parties	28(c)	298,840	302,606	287,281
Dividend Payable	26(b)	-	-	300,000
Long Term Loan	27(c)	-	-	1,843,012
Tax Payable	11(c)	223,802	-	-
		<b>3,987,896</b>	<b>2,545,997</b>	<b>4,525,848</b>
<b>Total Shareholder's Funds and Liabilities</b>		<b>70,059,342</b>	<b>61,490,995</b>	<b>46,230,075</b>

The financial statements on pages 8 to 48 were approved and authorised for issue by the Board of Directors on **31 March 2015** and signed on their behalf by:

  
 Director

  
 Director

KENYA PIPELINE COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2014

	Share Capital Kshs'000	Share Premium Kshs'000	Retained Earnings Kshs'000	Revaluation Reserve Kshs'000	Total Equity Kshs'000
At 1 July 2012 (as previously reported)	363,466	512,289	33,249,174	-	34,124,929
Prior year adjustment on retirement benefit asset (Note 33(i))	-	-	301,871	-	301,871
At 1 July 2012 (restated)	363,466	512,289	33,551,045	-	34,426,800
Profit for the year	-	-	6,729,919	-	6,729,919
Other comprehensive income	-	-	426,988	11,859,254	12,286,242
Total comprehensive income	-	-	7,156,907	11,859,254	19,016,161
Transfer of excess depreciation	-	-	-	-	-
Deferred tax on excess depreciation	-	-	-	-	-
Dividend declared - 2012	-	-	(380,000)	-	(380,000)
At 30 June 2013 (restated)	363,466	512,289	40,327,952	11,859,254	53,062,961
At 1 July 2013 (as previously reported)	363,466	512,289	39,074,689	16,780,968	56,731,412
Prior year adjustment on retirement benefit asset (Note 33 (i))	-	-	772,489	-	772,489
Prior year adjustment on property, plant and equipment (note 33 (ii))	-	-	-	(179,177)	(179,177)
Prior year adjustment on leasehold land (note 33 (ii))	-	-	-	340,000	340,000
Prior year adjustment on deferred tax on revaluation surplus (note 33(iii))	-	-	-	(5,082,537)	(5,082,537)
Prior year adjustment on deferred tax	-	-	480,774	-	480,774
At 1 July 2013 (restated)	363,466	512,289	40,327,952	11,859,254	53,062,961
Profit for the year	-	-	7,102,783	-	7,102,783
Other comprehensive income	-	-	(35,766)	28,257	(7,509)
Total comprehensive income	-	-	7,067,017	28,258	7,095,275
Transfer of excess depreciation	-	-	-	-	-
Deferred tax on excess depreciation	-	-	-	-	-
At 30 June 2014	363,466	512,289	47,394,969	11,887,512	60,158,236

KENYA PIPELINE COMPANY LIMITED

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 Kshs'000	2013 Kshs'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	27(a)	11,582,002	8,948,241
Interest received	8(a)	152,592	366,723
Interest expense	8(c)	-	(240,677)
Income tax paid	11(c)	(1,823,764)	(2,513,264)
Withholding tax paid	11(c)	(46,891)	(22,909)
		<hr/>	<hr/>
Net cash generated from operating activities		9,863,939	6,538,114
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	14	(3,139,984)	(813,445)
Proceeds from disposal of assets held for sale	23	23,255	12,106
Proceeds from disposal of property, plant and equipment		16,695	8,300
		<hr/>	<hr/>
Net cash flows used in investing activities		(3,100,034)	(793,039)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid	26(b)	-	(680,000)
Repayment of borrowings	27(c)	-	(8,290,208)
		<hr/>	<hr/>
Net cash flows used in financing activities		-	(8,970,208)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		6,763,905	(3,225,133)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>			
		4,318,948	7,544,082
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>			
	27(b)	<u>11,082,853</u>	<u>4,318,948</u>

KENYA PIPELINE COMPANY LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 30 JUNE 2014

1. ACCOUNTING POLICIES

a) **Statement of Compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards. For the Kenyan Companies Act reporting purposes, in these financial statements, the balance sheet is represented by/equivalent to the statement of financial position and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

**Adoption of new and revised International Financial Reporting Standards (IFRSs)**

(i) *Relevant new standards and amendments to published standards effective for the year ended 30 June 2014*

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities	The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.
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The application of the amendment had no effect on the company's financial statements as the company did not have any offsetting arrangements in place.

New and revised standards on consolidation and joint arrangements, associates and disclosures	In May 2011, a package of five standards in consolidation and joint arrangements, associates and disclosures was issued comprising IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IASs 27 (as revised in 2011) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. Subsequent to the issue of these standards, amendment to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain guidance on first application of the standards.
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The application of the new standard has not had any impact on the disclosures or the amounts recognised in these financial statements as the company does not have any joint arrangements.

IFRS 13 Fair Value Measurement	The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).
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IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.