

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
LAPSSET CORRIDOR DEVELOPMENT  
AUTHORITY**

**FOR THE YEAR ENDED  
30 JUNE 2014**

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# THE PRESIDENCY

## LAPSSET CORRIDOR DEVELOPMENT AUTHORITY

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### ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2014

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

**LAPSSET Corridor Development Authority**  
**Financial Statements For the year ended 30<sup>th</sup> June 2014**

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## I. KEY AUTHORITY INFORMATION AND MANAGEMENT

### (a) Background information

The LAPSSET Corridor Development Authority (LCDA) is a state corporation established through the Presidential Order, LAPSSET Corridor Development Authority Order, 2013 contained in the Kenya Gazette Supplement No.51, Legal Notice No.58 of March, 2013 succeeding the Project Coordination Secretariat which had hitherto been charged with the responsibility of steering the LAPSSET Corridor Programme implementation.

### (b) Principal Mandate of the Authority

LCDA is tasked with a broad mandate to plan, coordinate, sequence and provide effective leadership in implementation of the LAPSSET Corridor Programme components with Implementing agencies and stakeholders. LCDA is thus charged with the role of guiding policy, ensuring availability of funds for the projects, ensuring timely implementation of the project components, as well as ensuring operational and technical oversight for the LAPSSET corridor projects. This mandate is derived from the authority's functions which are as follows:

- i. To Plan, co-ordinate and sequence LAPSSET Corridor projects in collaboration with the implementing Ministries and Agencies;
- ii. To Coordinate implementation of LAPSSET Corridor projects across implementing Ministries and Agencies;
- iii. To Provide leadership, direction and guidance in operations and implementation of the LAPSSET corridor;
- iv. To Ensure timely implementation of the decisions and resolutions of the government;
- v. To Mobilize funds to project components using a variety of resources including budgetary resources from government, donor loans, infrastructure bonds and private finance;
- vi. In collaboration with the relevant National and County government departments, to build the capacity of LAPSSET Corridor towns to manage the urban growth resulting from LAPSSET Corridor investments;
- vii. To Promote the competitiveness and use of the LAPSSET Corridor for the transport of goods and people; and
- viii. To Provide forum for the stakeholders in the LAPSSET Corridor

### **Programme Components**

The LAPSSET Corridor Programme components include:









- ix. Lamu Port at Manda Bay;
- x. Standard gauge railway lines from Lamu to Isiolo, Isiolo to South Sudan and Uganda, Isiolo to Ethiopia and Nairobi to Isiolo;
- xi. Highway from Lamu to Isiolo – Lokichar - Nakodok (South Sudan), Lokichar, and Isiolo to Moyale - Addis Ababa (Ethiopia);
- xii. Crude Oil Pipeline from Lamu to Isiolo –Nakodok (South Sudan), Lokichar/Hoima (Uganda) and Product Oil Pipeline from Lamu to Isiolo – Moyale – Addis Ababa (Ethiopia);
- xiii. International Airports at Lamu, Isiolo, and Lake Turkana;
- xiv. Resort Cities at Lamu, Isiolo and Lake Turkana;
- xv. Merchant Oil Refinery at Lamu;
- xvi. High grand falls multipurpose power generation dam;
- xvii. Water Supply lines;
- xviii. Power Supply; and
- xix. Fibre Optic Cable and Communication systems

### **(c) Pronouncements from the Public Sector Accounting Standards Board (PSASB)**

The Public Finance Management (PFM) Act 2012 Section 192 provided the setting up of the Public Sector Accounting Standards Board (PSASB). The Cabinet Secretary National Treasury, gazetted members of the Board through Gazette Notice No. 1199 of 28 February, 2014. Following the Board's approval on the adoption of the International Financial Reporting Standards (IFRS) for state organs operating as Commercial Business Entities and The International Public Sector Accounting Standards (IPSAS) for non-commercial entities, LAPSSET Development Authority has adopted the pronouncements made by the IPSAS board in preparation of its current year financial statements.

**II. MANAGEMENT TEAM**














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

No.	Name	Designation		Qualification
1.	Silvester Kasuku	Director General/CEO		MA (Planning)
2.	John Musale	Ag. Finance and Planning Manager		MA (Economic Policy Management)
3.	Mrs. Ruth Bosire	Ag. Human Resources and Administration Manager		Doctorate in Business Administration (DBA)
4.	Evans Ombiro	Ag. Accounts Manager		Msc - Commerce (CPA K)
5.	James Muigai	Ag. Chief Internal Auditor		B Com (CPA K)
6.	Nyambura Kimani	Legal Officer		LLM (Law )
7.	Benjamin Mutea	Ag. Procurement Officer		BA (Econ)
8.	Benson Thuita	Corporate Affairs Officer		BA (Coms)

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**(d) Fiduciary Management**

The Board of Directors who held office during the financial year ended 30<sup>th</sup> June 2014 are:

	<b>Name</b>	<b>Title/designation</b>	<b>Key qualification/DoB</b>		<b>Responsibilities</b>
1.	Amb. Francis Muthaura	Chairman of the board	BA(Hons)		Chairman of the Board
2.	Silvester Kasuku	Director General/CEO	MA - Planning		Director General/CEO
3.	Fauzia B. Karama	Member	MBA, Bsc. 10.4.1967		Chairperson – Audit Committee
4.	James Wachira	Member	MBA 11.11.1966		Chairman Strategy and Development Committee
5.	Alice Kirenge	Member	MBA, B.Com. 1.5.1961		Member
6.	Dr Kavoo Linge Augustine	Member	M.M. Medicine 27.9.1955		Chairman Administration and Finance Committee
7.	Prof. Gituro Wainaina	Co-opted Member	PhD 1.1.1956		Member
8.	Stephen K. Kirogo	PAS Cabinet Affairs	MA. (Econ.) 31.12.1960		Member
9.	Hon. Abdikadir Mohamed	Member	LLM, Dip Law		Member
10.	Dr. Kamau Thugge	PS. The National Treasury	BA.(Econ.)		Member
11.	Mr. Nduva Muli	PS. Ministry of Transport and Infrastructure	BA.		Member
12.	Eng, Joseph Njoroge	PS. Ministry of Energy and Petroleum	BSc {C.E.} 27.6.1959		Member
13.	Dr. Ann Kinyua	FOR,PS Ministry of East Africa Affairs, Commerce, Tourism	PhD, MA(Ed), BED. 1.10.1960		Member

**(e) Fiduciary Oversight Arrangements**

**1. Audit Committee**

- i) Fauzia B. Karama - **Chairperson**
- ii) Hon. Abdikadir Mohamed
- iii) Mr. James Wachira
- iv) Principal Secretary/alternate, Ministry of East African Affairs, Commerce and Tourism
- v) Principal Secretary/alternate, Ministry of Energy and Petroleum
- vi) Mr. James Muigai .Ag. Chief Internal Auditor - **Secretary**

**2. Administration and Finance Committee**

- i) Dr. Kavoo Linge Augustine - **Chairperson**
- ii) Alice Kirenge
- iii) Principal Administrative Secretary / alternate – Cabinet Affairs Office in the Presidency
- iv) Principal Secretary/ alternate – The National Treasury
- v) Principal Secretary/ alternate – Ministry of Transport and Infrastructure
- vi) Principal Secretary/alternate, Ministry of Energy and Petroleum
- vii) Mr. Silvester Kasuku - **Secretary**

**3. Strategy and Development Committee**

- i) Mr. James Wachira - **Chairperson**
- ii) Hon. Abdikadir Mohamed
- iii) Fauzia B. Karama
- iv) Dr. Kavoo Linge Augustine
- v) Principal Secretary/Alternate – The National Treasury
- vi) Principal Secretary/Alternate– Ministry of Transport and Infrastructure
- vii) Principal Secretary/Alternate – Ministry of East African Affairs, Commerce and Tourism
- viii) Prof. Gituro Wainaina
- ix) Mr. Silvester Kasuku - **Secretary**

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**(f) Authority's Headquarters**

LAPSSET Corridor Development Authority,  
Chester House, 2nd Floor,  
P.O Box 45008-00100,  
Koinange Street.  
NAIROBI.  
Telephone: +254-(0) 20-2219098

**(g) Authority's Contacts**

Telephone: +254-(0) 20-2219098  
Website: [www.lapsset.go.ke](http://www.lapsset.go.ke)

**(h) Authority's Bankers**

1. Kenya Commercial Bank  
Moi Avenue Branch  
P.O. Box 30081-00100  
Nairobi
2. National Industrial Credit(NIC)  
NIC House  
Nairobi











**(i) Independent Auditors**

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

**(j) Principal Legal Adviser**

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

### III. THE BOARD OF DIRECTORS

	Name	Title/designation	Key qualification/DoB		Responsibilities
14.	Amb. Francis Muthaura	Chairman of the board	BA(Hons)		Chairman of the Board
15.	Silvester Kasuku	Director General/CEO	MA - Planning		Director General/CEO
16.	Fauzia B. Karama	Member	MBA,BSC 10-4-1967		Chairperson – Audit Committee
17.	James Wachira	Member	MBA 11.11.1966		Chairman Strategy and Development Committee
18.	Alice Kirenge	Member	MBA, B.Com 1-4-1961		Member
19.	Dr Kavoo Linge Augustine	Member	MM.Medicine 27.9.1955		Chairman Administration and Finance Committee
20.	Prof. Gituro Wainaina	Co-opted Member	PhD, 1-1-1956		Member
21.	Stephen K. Kirogo	PAS Cabinet Affairs	MA(Econ)		Member
22.	Hon. Abdikadir Mohamed	Member	LLM, Dip Law		Member
23.	Dr. Kamau Thugge	PS. The National Treasury	PhD		Member
24.	Mr. Nduva Muli	PS. Ministry of Transport and Infrastructure	Lands Economist		Member
25.	Eng. Joseph Njoroge	PS. Ministry of Energy and Petroleum	BSc.(C.E.) 27.06.1959		Member
26.	Dr. Ann Kinyua	Director of Tourism in Ministry of East Africa Affairs, Commerce, Tourism	PhD		Member

#### **IV. CHAIRMAN'S STATEMENT**

On behalf of the Board of Directors, Management and the Staff of the LAPSSET Corridor Development Authority it is my utmost pleasure and privilege to present to you the Authority's Annual Report for the Financial Year 2013/2014. The release of this report is in fulfilment of the requirements of Section 81 of the Public Finance Management Act, 2012 and section 15 of the State Corporations Act, which oblige the Directors to prepare financial statements in respect of that Authority. The Board operates under the Mandate of ensuring the LAPSSET Corridor programme is fully executed through planning, coordination and sequencing the projects components with implementing ministries and agencies. This a huge mandate and it's execution has been aided greatly by stakeholders and the Kenyan public who continue to walk and work with the Authority.

Kenya has made tremendous strides and is steadily on a journey towards becoming a prosperous middle income country by the year 2030. Towards this, the government has recognized the critical role infrastructure plays in opening up vast areas, lowering the cost of transportation and enhancing equity. This realization lead to formation of the Authority to coordinate the different Ministries and Agencies involved in execution of the LAPSSET corridor programme. The role of Authority therefore will particularly be critical in realizing the Vision 2030 objectives by ensuring the Government and other investors in the LAPSSET programme to deliver Vision 2030's flagship projects.

The LAPSSET programme is a landmark development initiative which encompasses seven key project components which cut across several sectors and is firmly engrossed on the three pillars of Vision 2030. The programme intends to make Kenya a transport, trade and logistics hub and position the country far beyond her peers in the region. It is for this reason that the Authority has commenced measures geared towards increasing scope of private sector participation in infrastructure development through partnerships between public and private sectors players. The successful implementation of the LAPSSET programme is therefore set to confer to the country immense benefits such as economic growth and poverty reduction, optimized natural resource utilization, timely delivery of services across the nation and more inclusive and participatory development.

Am pleased to note that during the year, the Authority made extensive consultations which have started to bear fruits. Among them is the signing of the contract for the construction of the 1st three Berths of Lamu Port, the signing of consultancy services for the Pre-feasibility and Engineering designs for the Crude Oil Pipeline and the signing of a Memorandum of Understanding on the Lamu – Isiolo – Moyale and Isiolo – Lokichar – Nakodok Railway on the Feasibility Study including preliminary designs. These milestones are fundamental and significantly reinforce the fact that Investors are upbeat about the country's investment climate. The Authority also commenced the process of developing a five year Strategic Plan to align its activities with Vision 2030

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and the Second Medium Term Plan and this is at a very advanced level. It is thus vital to note that we have started on the right footing by being alive to the huge tasks ahead and proactively putting them in perspective.

The Authority is aware of the immense challenges that lie ahead including improving the coordination; developing the capacity in human capital, and changing the perception that development is undertaken selectively to repay patronage.

The Board is cognizant the aforementioned would not have been realized without the support of the government, staff, stakeholders and the public at large for their support in assisting the Authority carry out its mandate. Equally, I would like to appreciate my board colleagues for their insight and passion in articulating the Authority's policy and strategic direction which has resulted to amiable working relationship and success. To the staff of the Authority, I thank you for dedication and commitment in the discharge of our mandate. In fulfilment of the requirements of Section 81 of the Public Finance Management Act, 2012 and section 15 of the State Corporations Act and on behalf of the LAPSSET Corridor Development Authority Board, I am pleased to present to you the Authority's Annual Report for 2013-2014.

## **V. REPORT OF THE CHIEF EXECUTIVE OFFICER**

Kenya has consistently been rated as a prominent investment destination in the world with the 2014 Good Country Index ranking it position 1 in Africa and 26 out of 125 Countries in competitiveness. Recent happenings including promulgation of the new constitution and the successful elections in 2013 have reinforced this position. Fundamentally, Kenya is well placed to play a greater role in fostering regional cooperation and integration and being a transport and logistics hub for East Africa and the Great Lakes Region. To cement this position, the government undertook to implement the LAPSSET Corridor Programme which is the first single gigantic, integrated, transformative and Game-Changer infrastructure project that the Government has initiated under Vision 2030 blue print.

The task of steering this programme was bestowed on the LAPSSET Corridor Development Authority and is clearly stipulated in the Authority's mandate of planning, coordination and sequencing the LAPSSET programme. This in turn has created synergies and propelled the project to the right direction while initiating vital discourse on the best delivery mechanism. This work is underpinned by the fact that infrastructure is important for social economic progress and the expanding need for integrated and inclusive development across the nation.

Am therefore pleased to present the highlights of the operations, achievements and challenges, one year since its' inception. The Authority continued to design innovative and dynamic goals and pursued them successfully. The authority made numerous accomplishments in spite of inherent financial and human capacity constraints.

Coordinated the commencement of the delivery of the LAPSSET Corridor Program which includes:

- Completion of procurement of Lamu Port Contractor and Project Supervision Consultant
- On-going design of Lamu-Garissa-Isiolo-Nginyang Road
- Procurement of consultants to undertake the design and feasibility study of the crude oil pipeline.
- Monitoring the on-going construction of Isiolo-Marsabit-Moyale Road
- Coordinating and processing due diligence documents for undertaking feasibility studies for the Lamu-Isiolo-South Sudan-Ethiopia Railway Line
- Coordinating Ground Breaking for the 1<sup>st</sup> 3 Berths of Lamu Port Project
- Coordination of completion of delivery of LAPSSET Plaza and Port Police Station in Lamu.
- Completion of connection of electric power through National Grid to Lamu Port Site

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- Drafting of the Authority's Strategic Plan
- Development of five (5) Authority's operational manuals
- Revamping of the Authority's website and uploading key information
- Offering scholarship to two hundred (200) youths from Lamu
- Convening to (2) stakeholder's forums to discuss projects financing options, acquisition of the land and projects delivery timelines.
- Holding a Board Induction retreat
- Procuring office space for the Authority

In addition, the Authority participated in several forums convened by implementing agencies and investors locally and abroad and actively brought out pertinent issues that need to be addressed such as land acquisition, projects financing and delivery timelines.

### **Challenges**

In seeking to make progress, the Authority continued to encounter several challenges mostly related to our internal capacity constraints mainly financial and human. These challenges derailed the operations of the Authority and stalled some of the most critical activities that had been planned. The Authority nevertheless has laid down strategies and plans to overcome these constraints by getting staff on secondment and engaging The National Treasury to provide adequate finances in the short term and lay down collaboration strategies and legal framework in the medium term.

### **The Annual Report and Financial Statement**

The Financial Statement of LAPSSET Corridor Development Authority (LCDA), have been prepared for the financial year ending 30<sup>th</sup> June 2014. The amount received from the Government was 126 million while the total expenditure for the period was Kshs 103 million.

### **Appreciation**

In closing, I wish to thank the Board of Directors under the Chairmanship of Amb (Dr.) Francis K. Muthaura whose appointment brought new impetus into the Authority and the entire staff of the Authority for their valuable contributions towards the realization of positive results which are focused on delivering the most transformative and game changer infrastructure in the country. Sincere thanks to the public and the final beneficiary of the LAPSSET programme and to the government for continued support.

## VI. CORPORATE GOVERNANCE STATEMENT

At LAPSSET Corridor Development Authority (LCDA), the Board of Directors and senior management are committed to the highest level of corporate governance which we consider critical to integrity and to further strengthen stakeholder trust in the Authority.

### Board of Directors

The Board comprises of fourteen (members), two (2) of whom are co-opted, including the Chairman and Secretary. The Board defines the Authority's strategies, objectives and values and ensures that procedures and practices are set in place to ensure effective control over strategic, financial, operational and compliance issues. The Directors bring a wealth of experience and knowledge to the Board's deliberations. The Board delegates authority of its day-to-day business to the Management through the Director General/ CEO but is nonetheless responsible for the stewardship of the Authority and assumes responsibilities for the effective control over the Authority. The Board Secretary attends all meetings, save for the Audit Committee meetings.

### Board Meetings

Given that the Authority is still in its formative stages, the Board has held six (6) regular meetings during the year under review.

### Committee's of the Board

The Board has set up the following principal Committee's which meet under clearly defined terms of reference set out by the Board. This intended to facilitate efficient decision making of the Board in discharging its duties and responsibilities.

#### 1. Strategy & Development Committee

The membership of the Committee is comprised as follows:

- i) Mr. James Wachira – Chairperson
- ii) Hon. Abdikadir Mohamed
- iii) Fauzia B. Karama
- iv) Dr. Kavoo Linge Augustine
- v) Principal Secretary / Alternate – The National Treasury
- vi) Principal Secretary / Alternate – Ministry of Transport and Infrastructure
- vii) Principal Secretary / Alternate – Ministry of East African Affairs, Commerce and Tourism
- viii) Prof. Gituro Wainaina
- ix) Mr. Silvester Kasuku – Secretary

The Committee assists the Board in fulfilling its corporate governance responsibilities and in particular to:

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- Devise mechanisms and strategies for implementing the LAPSSET Project;
- Spearhead project planning and sequencing;
- Spearhead financial modelling for implementing the Project and finance mobilization;
- Develop periodic strategic plans on direction that needs to be taken up by the Authority;
- Oversee monitoring and evaluation of LAPSSET projects;
- Make recommendations to the Board regarding strategies that LAPSSET can adopt;
- Approve development briefs and master plans;
- Develop mechanisms for promotion of project components to attract funding;
- To review and approve the LCDA's annual work plan to ensure that it is in line with the Strategic Plan;
- To oversee the development of LCDA's annual Performance Contract and oversee its implementation; and
- Review collaboration activities and partnerships with other agents.

The Committee held eight (8) regular meetings during the year under review.

**2. Finance & Administration Committee**

The membership of the Committee is comprised as follows:

- i. Mr. James Wachira – Chairman
- ii. Alice Kirenge
- iii. Principle Administrative Secretary/ Alternate – Cabinet Affairs Office in the Presidency
- iv. Principal Secretary / Alternate – The National Treasury
- v. Principal Secretary / Alternate – Ministry of Transport and Infrastructure
- vi. Principle Secretary / Alternate – Ministry of Energy & Petroleum
- vii. Mr. Silvester Kasuku – Secretary

The Committee assists the Board in fulfilling its corporate governance responsibilities and in particular to:

- Oversee the preparation of LCDAs budget.
- Review the LCDA's annual budget before submission and after approval by the Treasury;
- Review quarterly Financial Monitoring Reports (FMR);
- Review periodic operational budgets and financial statements;
- Monitor the continuing efficacy of accounting and internal control;
- Comply with the Government financial management regulations;
- Monitor the performance of key finance and accounts staff against approved performance contracts;

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- Oversee the annual procurement plans including the external funded projects;
- Recruit and develop of staff of LCDA;
- Monitor and appraise the performance of senior management, review of all human resource policies, determining the remuneration of senior management and other staff.

The Committee held seven (7) regular meetings during the year under review.

### **3. Audit Committee**

The membership of the Committee is comprised as follows:

- i) Fauzia B. Karama – Chairperson
- ii) Hon. Abdikadir Mohammed
- iii) Mr. James Wachira
- iv) Principal Secretary / Alternate – Ministry of East African Affairs, Commerce and Tourism
- v) Principle Secretary / Alternate – Ministry of Energy & Petroleum
- vi) Mr. James Muigai Ag. Chief Internal Auditor – Secretary

The Committee assists the Board in fulfilling its corporate governance responsibilities and in particular to:

- Monitor the implementation of the risk management policy framework;
- Monitor and ensure timely implementation of recommendations of various fiduciary oversight responsibilities, including internal and external auditors, Government project monitoring agencies and external funded projects' periodic review and supervision missions;
- Oversee continuing efficacy of accounting and internal control standards, policies and practices;
- Ensure compliance with legal covenants of Development Partners funding agreement on projects by them; and
- Monitor performance of key internal audit staff against approved performance contracts.

The Committee held two (2) regular meetings during the year under review.

## VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The LAPSSET Corridor Development Authority (LCDA) was established through the Presidential Order Kenya Gazette Supplement No. 51, Legal Notice No. 58, and The LAPSSET Corridor Development Authority Order 2013, tasked with the mandate of planning, coordinating and management of the implementation of the Lamu Port-South Sudan-Ethiopia Transport (LAPSSET) Corridor.

The LAPSSET Corridor Project is the first gigantic, integrated, transformative and game changer infrastructure project the Government has initiated and prepared under the vision 2030 strategy framework. The project endeavours to deliver a just and prosperous middle income Kenya by the year 2030.

Among the numerous benefits of the LAPSSET Project, the creation of employment, poverty reduction as well as improved accessibility and enhanced social economic development, will be the most felt specifically by the local community along the LAPSSET Corridor who have often felt left behind in terms of the country's development agenda.

However in order for the local community to be better placed in seizing the wealth creation and job opportunities that will emerge during and after the completion of the LAPSSET Infrastructure projects, LCDA initiated the **LAPSSET Scholarship Project**, a youth empowerment initiative through education and capacity building to enhance the skills of the local youth.

The LAPSSET Scholarship is a program that falls in line with a presidential directive to invest in the education of the youth along the LAPSSET Corridor, part of measures to ensure that the local community is actively involved and stand to benefit from the Mega Infrastructural Developments.

The LAPSSET Scholarship Project was initiated in early February 2014 through a well-coordinated selection process that involved the Ministry of Higher Education, Science and Technology and the Lamu County leaders who ensured a successful interview of eligible candidates through a transparent and equitable manner whereby over 1500 youth were shortlisted. The exercise also identified and selected relevant technical training institutes that equip students with technical skills such as; Marine engineering, Transport & Logistics, Nautical engineering etc. skills that will qualify the Lamu youth to gain meaningful employment in the proposed Lamu Port and other infrastructure developments.

The LAPSSET Corridor Development Authority (LCDA) has currently awarded Scholarships to 200 Lamu youth for the year 2014, as the Authority seeks to subsequently enroll 1,000+ students for the massive scholarship program. Currently,

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students have been enrolled in different parts of the country in an attempt to expand their worldview and appreciate the cultural diversity of Kenya.

Prior to the LAPSSET Scholarship, majority of the students confessed to having lost hope about their future expectations having stayed out of school for many years after completion of their secondary education. A number of the students interviewed also praised the LAPSSET Scholarship Program for having taken them away from a life of idling, and potential drug addiction, to learning institutional environments where they are actively engaged in educational and vocational activities, rekindling the flame of their future hopes and dreams of being productive citizens, empowered through education to seize job and entrepreneur opportunities.

Indeed, education is key to a brighter future and the Lamu youth under the LAPSSET Scholarship feel without a doubt, they are part and parcel of that bright future considering the huge investment LCDA has made towards their education, providing full scholarship as well as facilitating for their meals, accommodation, transport and subsistence, a clear sign that they are part and parcel of the LAPSSET Project whereby their education and skills will place them in suitable employment positions as opposed to the casual low ranking cadres that many local communities have complained of being subjected to.

## VIII. REPORT OF THE DIRECTORS

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

### Principal activities

The principal activity of the Authority is to coordinate the development of a transport corridor consisting of a Port at Lamu; highways from Lamu to Isiolo to Moyale and Isiolo to Lokichar Nakadok; Standard Gauge Railway from Lamu to Isiolo to Moyale and Isiolo to Lokichar to Nakadok; International Airports at Lamu, Isiolo and Turkana; crude oil pipeline and refined oil pipeline and oil refinery. It will also plan for development of resort cities in Lamu, Isiolo and Turkana as well as other supporting infrastructure such as power supply, water supply and fiber optic cable along the corridor.

### Results

The results of the Authority for the year ended June 30, 2014 are set out on page 21-25

### Directors

The members of the Board of Directors who served during the year are shown on page 7.

### Auditors

The Auditor General is responsible for the statutory audit of the Authority in accordance with the Section 81 of the Public Finance Management (PFM) Act, 2012.

By Order of the Board



Secretary to the Board

Nairobi

Date 13<sup>th</sup> January 2015

## **IX. STATEMENT OF BOARD OF DIRECTORS' RESPONSIBILITIES**

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

The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on June 30, 2014. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Authority; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of Authority's transactions during the financial year ended June 30, 2014, and of the Authority's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

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

## **X. REPORT OF THE INDEPENDENT AUDITORS ON THE AUTHORITY (LAPSSET CORRIDOR DEVELOPMENT AUTHORITY)**

We have audited the accompanying (consolidated) financial statements of LAPSSET Corridor Development Authority for the year ended June 30, 2014, which comprise: (i) a statement of financial performance; (ii) a statement of financial position; (iii) a statement of changes in net assets; (iv) a statement of cash flows; (v) a statement of comparison of budget and actual amounts and (v) a summary of significant accounting policies and other explanatory information.

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

The Authority's Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards, and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**LAPSET Corridor Development Authority**  
**Financial Statements For the year ended 30<sup>th</sup> June 2014**

**Opinion**

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as at June 30, 2014, and its financial performance as well as cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

\_\_\_\_\_  
Auditor General

\_\_\_\_\_  
Date

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### **REPORT OF THE AUDITOR-GENERAL ON LAPSSET CORRIDOR DEVELOPMENT AUTHORITY FOR THE YEAR ENDED 30 JUNE 2014**

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of LAPSSET Corridor Development Authority set out on pages 21 to 37, which comprise statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 8 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of audit.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 7 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 9 of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

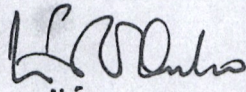
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or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

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

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the LAPSSET Corridor Development Authority for the year ended 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual basis) and comply with the Public Finance Management Act, 2012.



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

**Nairobi**

**26 March 2015**

**XI. STATEMENT OF FINANCIAL PERFORMANCE**

**For the year ended 30 June 2014**

		2013-2014 Kshs	2012-2013 Kshs
<b>Revenue from non-exchange transactions</b>	Notes		
Transfers from other governments	1	126,500,000.00	-
<b>Revenue from exchange transactions</b>			
Other income	2	8,616.00	-
<b>Total revenue</b>		<b>126,508,616.00</b>	<b>-</b>
<b>Expenses</b>			
Employee costs	3	54,205,254.00	-
Board Expenses	4	7,421,366.00	-
Depreciation expense	5	1,418,295.00	-
Grants and subsidies	6	6,706,303.00	-
Operating expenses	7	33,286,812.00	-
<b>Total expenses</b>		<b>103,038,030.00</b>	<b>-</b>
<b>Surplus for the period</b>		<b>23,470,587.00</b>	<b>-</b>

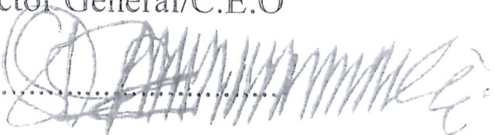
The notes set out on pages 26 to 37 form an integral part of the Financial Statements

**XII. STATEMENT OF FINANCIAL POSITION**  
 As at 30 June 2014

		2013-2014 Kshs	2012-2013 Kshs
<b>Assets</b>	<b>Notes</b>		
<b>Current assets</b>			
Cash and cash equivalents	8	9,801,152.00	-
Receivables from exchange transactions	9	9,337,151.00	-
Grant Receivables	15	26,500,000.00	
		<b>34,638,303.00</b>	-
<b>Non-current assets</b>			-
Property, plant and equipment	10	45,056,038.00	-
<b>Total assets</b>		<b>90,694,341.00</b>	-
<b>Liabilities</b>			
<b>Current liabilities</b>			
Provisions & Payables	11	18,288,883.00	-
Employee benefit obligation	12	4,258,465.00	-
			-
<b>Total liabilities</b>		<b>22,547,349.00</b>	-
<b>Net assets</b>		<b>68,146,993.00</b>	-
Capital Grants		44,676,406.00	-
Accumulated surplus		23,470,587.00	-
<b>Total net assets and liabilities</b>		<b>90,694,341.00</b>	-

The Financial Statements set out on pages 21 to 25 were signed on behalf of the Board of Directors by:

Director General/C.E.O

Date: 

Chairman, Finance & Administration  
 Committee of the Board

Date: 

**XIII. STATEMENT OF CHANGES IN NET ASSETS**  
**For the year ended 30 June 2014**

	Revenue Reserve	Capital Grants**	Total
	Kshs	Kshs	Kshs
Reserves as at 1st July 2014	-	-	-
Additions in the year	-	44,676,406.00	44,676,406.00
Surplus for the year	23,470,587.00	-	23,470,587.00
<b>30th June 2014</b>	<b>23,470,587.00</b>	<b>44,676,406.00</b>	<b>68,146,993.00</b>

**Note**

\*\*Capital grants relate to donated assets by The Parent Ministry and various Authorities at the time of establishment of the Authority.

**XIV. STATEMENT OF CASH FLOWS**

		2013/2014	2012/2013
		Kshs	Kshs
<b>Cash flow from operating activities</b>	<b>Note</b>		
Receipts			
Exchequer releases	1	100,000,000.00	-
Other revenue	2	8,616.00	-
		<b>100,008,616.00</b>	-
Payments			
Employee costs	3	48,934,418.00	-
Board expenses	4	7,421,366.00	-
General Expenses	7	19,364,763.00	-
Grants and subsidies		12,688,990.00	
		<b>88,409,537.00</b>	-
<b>Net Cash from operating Activities</b>		<b>11,599,079.00</b>	-
Purchase of Fixed assets	15	(1,797,927.00)	-
<b>Net cash from investing activities</b>		<b>(1,797,927.00)</b>	-
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>9,801,153.00</b>	-
Cash and Cash equivalents at the beginning of the year	8	-	-
<b>Cash and Cash equivalents at the end of the year</b>		<b>9,801,153.00</b>	-

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

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2013-2014	2013-2014	2013-2014	2013-2014	2013-2014
	Kshs	Kshs	Kshs	Kshs	Kshs
<b>Revenue</b>					
Revenue from non-exchange transactions					
Transfers from other governments	596,000,000.00	57,000,000.00	653,000,000.00	126,500,000.00	526,500,000.00
<b>Revenue from exchange transactions</b>					
Other income				8,616.41	(8,616.41)
<b>Total revenue</b>	<b>596,000,000.00</b>	<b>57,000,000.00</b>	<b>653,000,000.00</b>	<b>126,508,616.41</b>	<b>526,491,383.59</b>
<b>Expenses</b>					
Employee costs	64,500,000.00	14,660,055.00	79,160,055.00	54,205,253.95	24,954,801.05
Board Expenses	5,000,000.00	3,136,000.00	8,136,000.00	7,421,366.00	714,634.00
Depreciation expense				1,418,294.68	(1,418,294.68)
Grants and subsidies	50,000,000.00	5,500,000.00	55,500,000.00	6,706,303.33	48,793,696.67
Operating expenses	<b>476,500,000.00</b>	<b>33,703,945.00</b>	<b>510,203,945.00</b>	<b>33,286,811.74</b>	<b>476,917,133.26</b>
<b>Total expenses</b>	<b>596,000,000.00</b>	<b>57,000,000.00</b>	<b>653,000,000.00</b>	<b>103,038,029.71</b>	<b>549,961,970.29</b>
<b>Surplus for the period</b>	-	-	-	<b>23,470,586.70</b>	<b>(23,470,586.70)</b>

Notes:

- i) Revenue received: there was underfunding due to budget constrains
- ii) Employees cost: The Authority had anticipated would operationalise the directorates as spelt out in the legal instrument but this did not happen due to financial constrains.
- iii) The initial budget was for the first lot of students who numbered 220, but the number that reported in the Financial year ending 30<sup>th</sup> June, 2014 was less.
- iv) The budget for operating expenses envisioned commencement of major Authority responsibilities which are important for the take –off of the other projects.

# Lapsset Corridor Development Authority

## Notes to the Financial Statements

### XVI. NOTES TO THE FINANCIAL STATEMENTS

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

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

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

#### 2. Summary of significant accounting policies

##### a) Revenue recognition

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

##### *Transfers from other government entities*

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

##### ii) Revenue from exchange transactions

##### *Interest income*

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

##### b) Budget information

The annual budget is prepared on the 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

## **Lapsset Corridor Development Authority**

### **Notes to the Financial Statements**

amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

#### **c) Taxes**

##### ***Current income tax***

The Authority is exempted from paying corporate taxes

#### **e) Property, plant and equipment**

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

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

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

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

#### **f) Leases**

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

# **Lapsset Corridor Development Authority**

## **Notes to the Financial Statements**

### **h) 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.

##### ***Loans and receivables***

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

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

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

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

## **Lapsset Corridor Development Authority**

### **Notes to the Financial Statements**

#### ***i) Financial liabilities***

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

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Authority determines the classification of its financial liabilities at initial recognition.

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

#### **j) Provisions**

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

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

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

#### ***Contingent liabilities***

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

#### ***Contingent assets***

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

## **Lapsset Corridor Development Authority**

### **Notes to the Financial Statements**

#### **k) Nature and purpose of reserves**

The Authority creates and maintains reserves in terms of specific requirements. Authority to state the reserves maintained and appropriate policies adopted.

#### **l) 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.

#### **m) Employee benefits**

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

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

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

#### **p) Related parties**

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

#### **r) 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

## **Lapsset Corridor Development Authority**

### **Notes to the Financial Statements**

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

#### **s) Comparative figures**

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

#### **t) Significant judgments and sources of estimation uncertainty**

The preparation of the Authority's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

State all judgements, estimates and assumptions made: e.g

#### ***Estimates and assumptions***

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

#### ***Useful lives and residual values***

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

- The condition of the asset based on the assessment of experts employed by the Authority

## Lapsset Corridor Development Authority

### Notes to the Financial Statements

- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

#### *Provisions*

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 11

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

#### **u) 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, 2014.

#### **1. Transfers from other governments – gifts and services-in-kind**

	<b>2013/2014</b>	<b>2012/2013</b>
	<b>Shs</b>	<b>Shs</b>
<b>Unconditional grants</b>		
Operational grant	126,500,000.00	-

#### **2. Other income**

	<b>2013/2014</b>	<b>2012/2013</b>
	<b>Shs</b>	<b>Shs</b>
Interest income earned	8,616.00	-

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

Basic salaries of permanent employees	34,947,983
Gratuity	4,258,465
Leave allowance	512,333
Pension	500,038
<b>Sub Total</b>	<b>40,218,819</b>

**Lapsset Corridor Development Authority**  
**Notes to the Financial Statements**

**3.1 STATUTORY DEDUCTIONS**

Payee	10,146,075
NHIF	31,360
<b>Sub Total</b>	<b>10,177,435</b>

**3.2 LAMU STEERING COMMITTEE**

Lamu Emoluments/Reimbursements	3,809,000
<b>Totals (as per Template-accruals Note 3)</b>	<b>54,205,254</b>

**4 BOARD ALLOWANCES**

	<b>2013/2014</b> <b>Kshs</b>	<b>2012/2013</b> <b>Kshs</b>
Board sitting allowance	6,371,696.00	-
Chairman's Honoraria	1,049,670.00	-
<b>Total</b>	<b>7,421,366.00</b>	<b>-</b>

**5. DEPRECIATION**

	<b>2013/2014</b> <b>Kshs</b>	<b>2012/2013</b> <b>Kshs</b>
Motor vehicles	183,370.00	-
Computer and Accessories	49,847.00	-
Furniture and fittings	8,239	-
Partitions	1,176,838	-
<b>Total</b>	<b>1,418,295</b>	<b>-</b>

**6. GRANTS AND SUBSIDIES**

	<b>2013/2014</b> <b>Kshs</b>	<b>2012/2013</b> <b>Kshs</b>
Grants for scholarships-Lamu Youth	6,706,303.00	-

Grants and subsidies relate to Lamu Youth Scholarship Programme where students from Lamu are sponsored through various institutions of higher learning. During the year ended a total of Kshs 12, 668,990 was paid. Kshs 6,106,687 relates to fees for the year 2014/2015 included in the prepayments.

**Lapsset Corridor Development Authority**  
**Notes to the Financial Statements**

**7. OPERATING EXPENSES**

	<b>2013/2014</b> <b>Kshs</b>	<b>2012/2013</b> <b>Kshs</b>
Telephone, Postage and Courier	538,805.00	-
Domestic travel and subsistence	5,706,694.00	-
Foreign travel and subsistence	7,136,278.00	-
Printing and advertising Expenses	4,200,803.00	-
Rent expenses	5,464,863.00	-
Training expenses	391,000.00	-
Hospitality supplies and services	420,111.00	-
Strategic plan costs	2,019,810.00	-
General Office expenses**	3,535,802.00	-
Motor vehicle repair and maintenance	3,872,646.00	-
<b>Total</b>	<b>33,286,812.00</b>	<b>-</b>

\*\*Note: General operating expenses include among other expenses payments of lunch expenses for board meetings, purchase of office stationery and other office consumables.

**8. CASH AND CASH EQUIVALENTS**

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

	<b>2013/2014</b> <b>Kshs</b>	<b>2012/2013</b> <b>Kshs</b>
Cash in bank	8,463,860.30	
Cash in hand	788,733.00	
Staff Imprests	548,559.00	
<b>Total</b>	<b>9,801,152.30</b>	

**9. PREPAYMENTS**

	<b>2013/2014</b> <b>Kshs</b>	<b>2012/2013</b> <b>Kshs</b>
Rent	3,230,464.00	
Lamu Youth Scholarships	6,106,687.00	
<b>Total</b>	<b>9,337,151.00</b>	

Lapsset Corridor Development Authority  
Notes to the Financial Statements  
**10. PROPERTY AND EQUIPMENT**

Cost/Valuation	Motor Vehicles Kshs	Furniture and fittings Kshs	Partitions Kshs	Computers Kshs	Totals Kshs
As at 1 <sup>st</sup> July 2013	-	-	-	-	-
Additions during the year	22,310,048.00	718,885.00	22,366,358.00	1,079,042.00	46,474,333.00
<b>As at 30<sup>th</sup> June 2014</b>	<b>22,310,048.00</b>	<b>718,885.00</b>	<b>22,366,358.00</b>	<b>1,079,042.00</b>	<b>46,474,333.00</b>
<b>Depreciation and impairment</b>					
As at 1 <sup>st</sup> July 2013	-	-	-	-	-
Charge for the Year	183,370.00	8,239.00	1,176,838.00	49,847.00	1,418,295.00
<b>As at 30<sup>th</sup> June 2014</b>	<b>183,370.00</b>	<b>8,239.00</b>	<b>1,176,838.00</b>	<b>49,847.00</b>	<b>1,418,295.00</b>
<b>NBV as at 30<sup>th</sup> June 2014</b>	<b>22,126,678.00</b>	<b>710,646.00</b>	<b>21,189,520.00</b>	<b>1,029,195.00</b>	<b>45,056,038.00</b>

NB: Assets Donated:

Furniture, fittings and partitions were the assets donated by Ewaso Ngiro South Development Authority, Lake Basin Development Authority, Coast Development Authority, and Ewaso Ngiro North Development Authority.

**Lapsset Corridor Development Authority**  
**Notes to the Financial Statements**

**11. PROVISIONS**

	<b>2013/2014 Kshs</b>	<b>2012/2013 Kshs</b>
Leave accrual	512,333.00	-
Lamu Youth Scholarships	124,000.00	-
Pension payable	500,038.00	-
Other Accrued Expenses	17,152,512.3	-
<b>Total</b>	<b>18,288,883.30</b>	-

**12. GRATUITY**

	<b>2013/2014 Kshs</b>	<b>2012/2013 Kshs</b>
Balance at the beginning of the year	-	-
Additional provisions raised	4,258,465.00	-
Provisions Utilized	-	-
<b>Closing Balance</b>	<b>4,258,465.00</b>	-

**Note:** Gratuity is payable to qualifying employees at a rate of 31% of the basic salary. Gratuity amounted to Kshs 4,258,465 relating back to the time the Authority was established in March 2013 to June 2014.

**13. CASH FROM OPERATING ACTIVITIES**

	<b>2013/2014 Kshs</b>	<b>2012/2013 Kshs</b>
<b>Surplus for the Year</b>	<b>23,470,587.00</b>	-
Adjusted for:		-
Depreciation	1,418,295.00	-
<b>Working capital changes</b>		
Increase in prepayments	(9,337,151.00)	-
Increase in provisions	1,136,371.00	-
Increase in provisions and payables	(26,500,000.00)	
Increase in gratuity	4,258,465.00	-
<b>Net cash flow from operating expenses</b>	<b>11,599,079.00</b>	-

**Lapsset Corridor Development Authority**  
**Notes to the Financial Statements**

**14. Grant Receivable**

Exchequer Release on 16<sup>th</sup> July Ksh 26,500.000 not recognised in year of reporting.

**15. PLANT AND PROPERTIES**

<b>Item Description</b>	<b>Quantity</b>	<b>Model</b>	<b>Date of purchase</b>	<b>Purchase price</b>
Fire proof Cabinets	2	Fire resistant	06/05/2014	358,900.00
colour photocopier Kyocera 2550 ci	1	Kyocera Task ALFA T-2550ci	25/04/2014	551,041.64
Printer laser jet pro	2	HP	06/05/2014	150,000.00
Desktop Computers	2	HP	21/05/2014	240,000.00
Sony 32", Samsung 32" & LG 24" TV	3	Sony, Samsung & LG	22/05/2014	89,985.00
Laser Jet pro 400 Colour printer	1	HP	27/06/2014	83,000.00
Scan Jet 5590	1	HP	27/06/2014	55,000.00
Ideal Shredder	3	Ideal	27/06/2014	270,000.00
<b>Totals</b>	<b>15</b>			<b>1,797,926.64</b>

**16. Events after the reporting period**

There are no material non-adjusting events after the reporting date.

