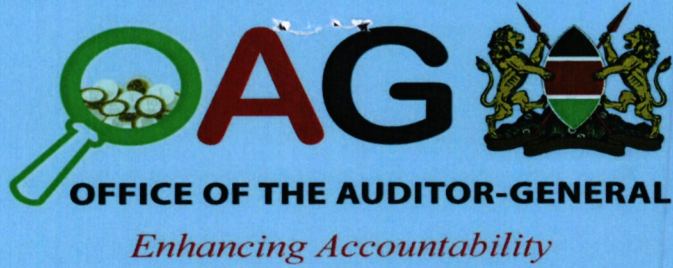



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THE AUDITOR-GENERAL

ON

**KENYA MARITIME AUTHORITY STAFF
MORTGAGE AND CAR LOAN SCHEME**

**FOR THE YEAR ENDED
30 JUNE, 2016**



11

11



KENYA MARITIME AUTHORITY
STAFF MORTGAGE AND CAR LOAN SCHEME
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2016

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

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1. KEY ENTITY 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”*.

KMA staff mortgage and Car loan is a scheme that supports the Authority’s staff to acquire homes and purchase cars.

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) Registered Offices

Kenya Maritime Authority Headquarters

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

e) Contacts

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

f) Bankers

Kenya Commercial Bank
Kilindini Branch
P O Box 90300

Mombasa.

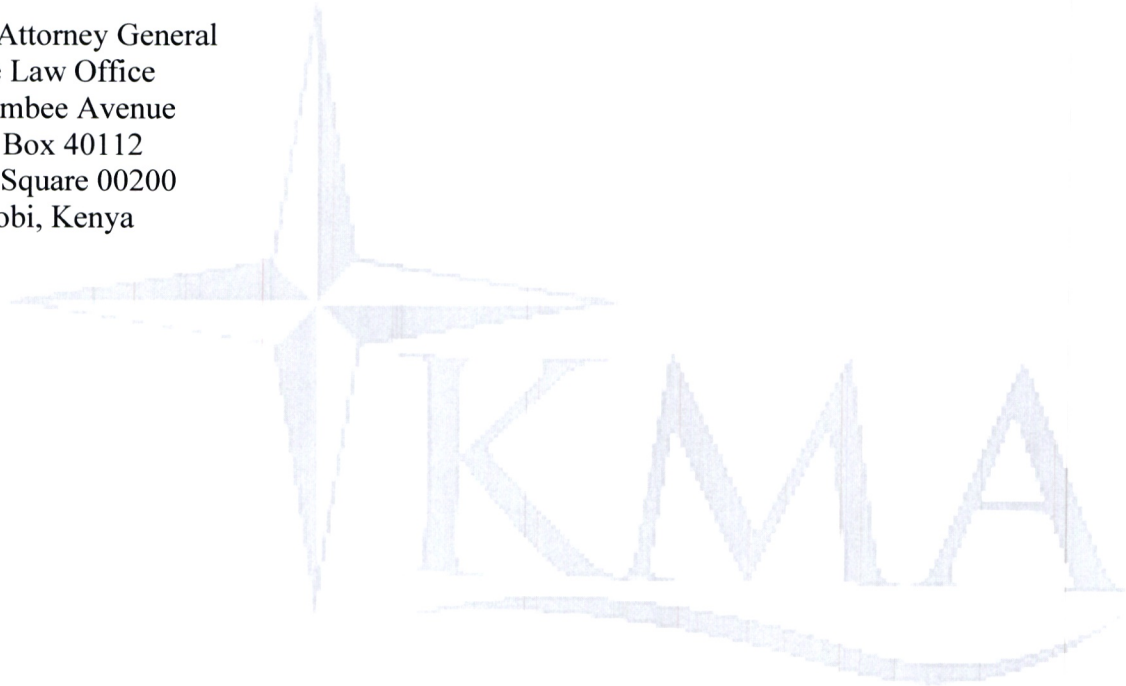
Family Bank
Nkrumah Road Branch
P.O Box
Mombasa

g) Independent Auditors





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





h) Principal Legal Adviser

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






2. THE BOARD OF DIRECTORS




| | NAME AND QUALIFICATION | DATE OF BIRTH AND EXPERIENCE |
|---|---|---|
| 1 | <p>Mr. Mwalimu Digore Kitambi</p>  <p>BSC in Physics & Mathematics</p> | <p>Date of Birth: 20.7.1961 26 years' work experience Appointed on 10th January, 2014 Expires on 9th January, 2017</p> |
| 2 | <p>Mr. Cosmas Cherop</p>  <p>Bachelor of Arts, MBA (Finance), CPA (K)</p> | <p>Date of Birth: 1965 26 years' work experience Appointed by the Board on 22 May, 2015</p> |
| 3 | <p>Ms. Agnes Ndwiga</p>  <p>MSC in Development Finance, B.Com.</p> | <p>Date of Birth: 04.9.1962 27 years' work experience Appointed on 5th January, 2016 Expires on 4th January, 2019</p> |
| 4 | <p>Ms. Malika Omar</p>  <p>Bachelor of Science in International Business Administration Advanced Diploma in Shipping Diploma in Shipping</p> | <p>Date of Birth: 29.10.1976 Appointed on 2nd October, 2015 Expires on: 1st October, 2018</p> |

| | | |
|----------|--|--|
| <p>5</p> | <p>Major General (Rtd) Anthony Rob, EBS</p>  <p>Major General (Rtd) Bachelor of Laws (LLB)</p> | <p>Date of Birth: 25th December, 1954 39 years' work experience Appointed on 17th April, 2015 Expires on 16th April, 2018</p> |
| <p>6</p> | <p>Prof. Eric Chenje Mwachiro, Ph.D</p>  <p>Ph.D Hydrobiology-Limnology and Fisheries M.Sc. Zoology, MBA , B.Sc Biology</p> | <p>Date of Birth: 19th September 1958 32 years' work experience Appointed on 17th April, 2015 Expires on 16th April, 2018</p> |
| <p>7</p> | <p>Mr. Ismail Mboya</p>  <p>MSC Degree Maritime Studies (Port Commercial)</p> | <p>Date of Birth: 9th December, 1946 Over 40 years' work experience Appointed on 17th April, 2015 Expires on 16th April, 2018</p> |
| <p>8</p> | <p>Prof. Githu Muigai (Hon. Attorney-General)</p>  <p>Doctor of Laws</p> | <p>Date of Birth: 31st January 1960 28 Years of Experience</p> |




2. BOARD OF DIRECTORS (Continued)

| | | |
|------------|---|--|
| <p>9</p> | <p>Ms. Roselyn Amadi (Alt. Director To The Hon. Ag)</p>  <p>Bachelors of Laws (Hons)</p> | <p>Date of Birth: 17.10.1955 38 Years of experience Appointed 11/1/2007 Expired 16/10/2015 (retired)</p> |
| <p>10</p> | <p>Ms. Geraldine M. Maingi (Alt. Director To The PS, MoT&I)</p>  <p>B.A (Hons) Public Admin & MSC Maritime Admin.</p> | <p>Date of Birth: 21.09.1959 27 years' of experience Appointed 10/2/2009 Expired 4/4/2016 (retired)</p> |
| <p>11.</p> | <p>Ms. Celestine Otunga (Alt. Director To The Hon. Ag)</p>  <p>Bachelor of Law (Hons) MBA, MSC Procurement</p> | <p>Date of Birth: 19.11.1960 27 year experience Appointed 17/10/2015 Expired 11/7/2016 (retired)</p> |




2. BOARD OF DIRECTORS (Continued)

| | | |
|------------------|--|---|
| <p>12</p> | <p>Mr. John K. Njera (Alt. Director To The PS, National Treasury)</p>  <p>Masters in Computer Science, Masters of Art in Economics(ongoing)</p> | <p>Date of Birth:2nd January 1969 21 years' of experience Appointed 7/3/2011 Expired 13/10/2015 (retired)</p> |
| <p>13</p> | <p>Mr. Said Gulleid</p>  <p>Certified in Accounting</p> | <p>Date of Birth: 12.7.1973 11 years' of experience Appointed on 11th October, 2012 Expired on 10th October, 2015 (retired)</p> |
| <p>14</p> |  <p>Mr. Irungu Nyakera, PS, MoT& I - HD State Department of Transport</p> | <p>Date of Birth:13th May 1982 8 Years of experience</p> |

II. BOARD OF DIRECTORS (Continued)

| | | |
|------------------|--|---|
| <p>15</p> | <p>Dr. Kamau Thugge, EBS, MBS, PS, Ministry of the National Treasury</p>  <p>B.A (Hons) Economics, M.A Economics & PHD Economics</p> | <p>Date of Birth: 15.11.1951 40years of experience</p> |
| <p>16</p> | <p>Mr. Julius N. Seger (Alt. Director To The PS, MoT&I)</p>  <p>Masters in Maritime Administration - WMU M.A University of Nairobi</p> | <p>Date of Birth: 26. 06. 1966 20 years of experience Appointed 5/4/2016 (Representing Parent Ministry)</p> |
| <p>17</p> | <p>Mr. Shem Nyakutu (Alt. Director To The PS, National Treasury)</p>  <p>Master of Science Bachelor of Arts, Bachelor of Law (LLB) (Hons)</p> | <p>Date of Birth: 1967 26 years of experience Appointed 14/10/2015 (Representing Treasury)</p> |

3. MANAGEMENT TEAM

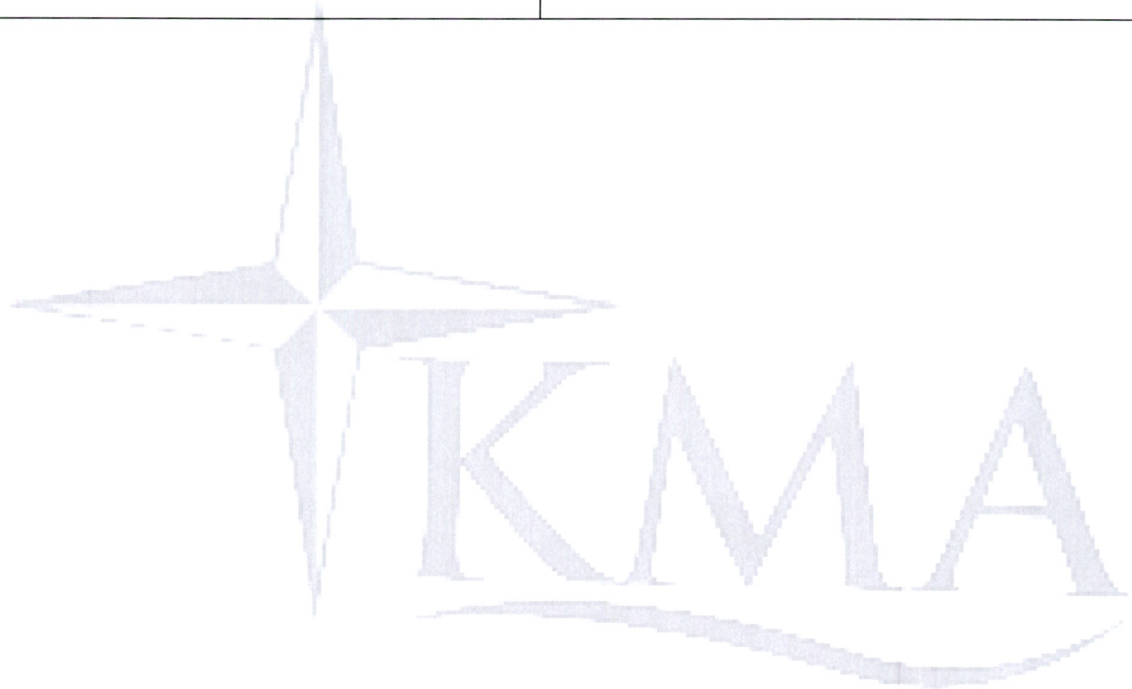
| 1. Mr. Cosmas Cherop – AG Director General | RESPONSIBILITY |
|---|---|
|  <p>Bachelor of Arts, MBA (Finance), CPA (K)</p> | <p>Responsible for setting and executing the overall business strategy for Kenya Maritime Authority (KMA) and translating Board and Shareholder mandates to the business and representing Management in the board. The position ensures that the authority meets its strategic objectives to achieve its overall goals.</p> |
| <p>2. Mr. Wilfred Kagimbi – Head of Maritime Safety</p>  <p>Master of Science Maritime Safety Admin, Bachelor of Marine Engineering</p> | <p>Responsible for overseeing and implementing Port State Control, Flag State Implementation duties, pollution prevention and control, search and rescue, receiver of wrecks, casualty investigation and development of ship construction standards and ensuring compliance.</p> |
| <p>3. Mr. John Omingo – Head of Commercial Shipping</p>  <p>Bachelor of Ed (SC), MSC (Shipping Admin.) Post Graduate Diploma in Transport Management</p> | <p>Responsible for coordinating, regulating and overseeing the orderly development and optimal provision of commercial maritime services in the country. Responsible for liaising with maritime organization / institutions on commercial matters of national, regional and international and conduct public awareness campaigns on the carriage of goods by sea. Ensuring the regulation of commercial maritime services in the country.</p> |

1. Ms. Celestine Otunga – Ag. Corporation Secretary & Head of Legal Services



Bachelor of Laws (Hons),
MBA, MSC Procurement

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.



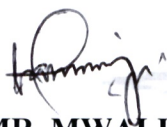
4. CHAIRMAN'S STATEMENT

I am pleased to present the Authority's Staff Mortgage and Car Loan Schemes financial statements for the year ended 30th June 2016.

The scheme provides staff with the opportunity to acquire plots, buy or build a house using mortgage loan that is within a term of twenty years and the scheme also facilitates staff to acquire motor vehicles through provision of loan to purchase vehicles that is repayable within five years.

The Staff Mortgage and Car Loan schemes were established in 2013 and 2015 respectively through the Authority's Board of Directors initiative to motivate staff leading higher retention. The scheme later adopted the provisions from the Car Loan and Mortgage schemes for State and Other public officers of the Government of Kenya by the Salaries and Remuneration Commission.

A revolving fund was set up to facilitate the scheme operations and its funding is provided through budgetary allocations. Kenya Commercial Bank and Family Bank facilitate the administration of the Staff Mortgage and Car Loan schemes respectively.



MR. MWALIMU DIGORE KITAMBI

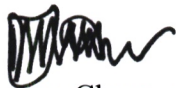
CHAIRMAN

5. REPORT OF THE DIRECTOR GENERAL

The Authority has the pleasure of the presenting the Staff Mortgage and Car Loan scheme Reports and financial statements for the financial year 2015/2016.

The scheme has issued 14 house mortgage loans and 13 car loans to staff from inception with a cumulative value of Kshs 108,655,327. In the FY2015/2016 two house mortgage loans and twelve car loans with a cumulative value of Kshs 29,844,380 were successfully issued.

The scheme is expected to continue to be more active in the subsequent years. The Authority will continue to mobilise budgetary allocations in subsequent financial years to enable all staff access the facility.



Cosmas Cherop (Mr.)

DIRECTOR GENERAL



6. CORPORATE GOVERNANCE STATEMENT

In accordance with the Board Manual and Code of best practices, the Authority has adopted high standards and applies strict rules of conduct in the discharge of its functions. As part of this commitment, the Board adheres to good corporate governance by embracing the principles of high standards of ethical and moral behaviour, acting in the best interest of the Authority while recognizing that the Authority acts as an exemplary good corporate citizen.

Role and Function of the Board of Directors

The role and functions of the Board *inter* includes, to:

- (i) Set and oversee the overall strategy and approve significant policies of the Authority;
- (ii) Approve the organizational structure;
- (iii) Approve the annual budget of the organization;
- (iv) Monitor the Authority's performance and ensure sustainability;
- (v) Ensure availability of adequate resources for the achievement of the Authorities objectives

The Board also reviews and approves the Authority's strategic and financial plans respectively.

Performance Evaluation and Governance Audit

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 Director General is an ex officio member of the Board and 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, the Merchant Shipping Act and appurtenant regulations, Treaties and Conventions which Kenya has acceded to, and other applicable among several other legislations in Kenya that the Authority is subservient to.

Conflict of Interest

The Board is under obligation to act in the best interest of the Authority and uphold the fiduciary responsibilities and duty of care. This obligation involves not disclosing confidential information, avoiding real and perceived conflicts of interest, and favouring the interests of the Authority over other interests. The Board members is expected to act honestly and in good faith so as to create a culture built on principles of integrity accountability and transparency.

Corruption Prevention

There is a Corruption Prevention Policy in place that reiterates the Anti- Corruption and Economic Crimes Act, 2003, Public Officer Act, 2003 and the Leadership and Integrity Act, 2012 with regards to issues of conflict of interest. The Authority has in place two separate Conflict of Interest Registers- one for the Board and the other for members of staff.

VI. CORPORATE GOVERNANCE STATEMENT (Continued)

Board Structure

The Board presently has a Chairman and six (6) 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 suitable for leading the Authority in the execution of its mandate. Directors' terms of appointment to office are governed by the Kenya Maritime Authority Act, State Corporations Act and Executive order no. 7 as detailed in the *Mwongozo* and the Code of Governance for state Corporations, 2015.

Appointment and Removal of the members of the Board

The Chairman is appointed by the President whereas the members of the Board are appointed by the Cabinet Secretary of the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works for a duration of three years, renewable for a further three year term. The members of the Board are appointed at different times so that the respective expiry dates of their terms of office fall at different times.

The Kenya Maritime Authority Act provides that Board may vacate office through written resignation to the Cabinet Secretary. There are specified circumstances under which Board may be removed from Office and includes, absence from three consecutive meetings of the Board without permission from the Chairperson, where a member is adjudged bankrupt or enters into a composition scheme or arrangement with his creditors, or where a member is convicted of an offence involving dishonesty or fraud is convicted of a criminal offence.

Board Induction

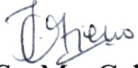
All the Board members have undergone the compulsory induction training by the State Corporations Advisory Committee (SCAC). In addition, all Directors are members of the Institute of Directors and have all been trained in Good Corporate Governance.

Board Remuneration

The Directors are remunerated as per prevailing government Circulars and official directives.

Board Meetings

The Board discharges its responsibilities through the Technical and Operations Committee, Finance and Human Resource Committee, the Governance and Integrity Committee and the Audit and Risk Assurance Committee.


PP CS - Ms. Celestine Otunga
CORPORATION SECRETARY
BY ORDER OF THE BOARD.

7. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

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;
- iv. enhance responsibility for the environment, and society.



8. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2016 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, 2016 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..

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

PP 
CORPORATION SECRETARY
MOMBASA

Date: 22/03/16

9. 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, 2016. 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, 2016, and of the Authority's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

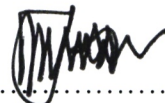
Nothing has come to the attention of the Directors to indicate that the Authority will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of financial statements

The Authority's financial statements were approved by the Board on 29th September 2020 and signed on its behalf by:



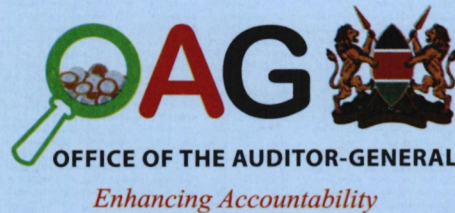
.....
Chairperson of the Board



.....
Director General

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA MARITIME AUTHORITY STAFF MORTGAGE AND CAR LOAN SCHEME FOR THE YEAR ENDED 30 JUNE, 2016

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Maritime Authority Staff Mortgage and Car Loan Scheme set out on pages 1 to 24, which comprise the statement of financial position as at 30 June, 2016, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Kenya Maritime Authority Staff and Car Loan Scheme as at 30 June, 2016, 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 Kenya Maritime Authority Staff Mortgage and Car Loan Scheme Policy, 2013 and 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

Interest Rate on Un-Utilized Funds for Car Loan Scheme

As disclosed in Note 1 to the financial statements, the statement of financial performance for the year ended 30 June, 2016 reflects interest income on bank deposits of Kshs.3,063,635. However, this balance excludes interest from un-utilized funds for the car loan, contrary to Section 6(a) of the Service Level Agreement between the Bank and the Kenya Maritime Authority which requires the Authority to place a deposit (cash cover) with the bank into a designated Kenya Maritime Authority – Car Loan Scheme. The money is for on-lending to the Kenya Maritime Authority members who have been pre-vetted and recommended by the Authority. The un-utilized amount is supposed to be invested at interest rates agreeable between the bank and the partner.

Consequently, the accuracy and completeness of interest income on bank deposits amounting to Kshs.3,063,635 for the year ended 30 June, 2016 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Maritime Authority Staff Mortgage and Car Loan Scheme Management in accordance with ISSAI 130 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 qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

Budgetary Control and Performance

During the year under review, the Scheme had no revenue budget, but received interest income of Kshs.3,063,629. It is not clear why the Management failed to budget for the interest and other income. Similarly, the Scheme had no expenditure budget and incurred a Nil actual expenditure. No explanation has been provided why the Management failed to budget for expenses of running the Scheme.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Late Submission of Financial Statements

The financial statements for the year ended 30 June, 2016 were submitted to the Auditor-General for audit on 30 September, 2020, a delay of four (4) years after the end of the fiscal year to which the accounts relate. This is contrary to Section 68(2) (k) of the Public Finance Management Act, 2012 which requires that financial statements be submitted to the Auditor-General within three (3) months after the end of the fiscal year to which the accounts relate.

The Management was therefore in breach of the law.

2. Operation of Un-authorized On-Call Deposits Account

As disclosed in Note 3 to the financial statements, the statement of financial position reflects a cash and cash equivalents balance of Kshs.58,669,857 as at 30 June, 2016. The balance includes On-Call deposits of Kshs.39,470,914. However, the Management did not provide approval for operating the account from The National Treasury, contrary to Section 28(1) of the Public Finance Management Act, 2012 which states that The National Treasury should authorize the opening, operating and closing of bank accounts and sub accounts for all national government entities.

Consequently, Management was in breach of the Law.

3. Loans to Members of Staff Beyond the Approved Limits

During the year under review, three (3) employees of the Kenya Maritime Authority were advanced car loans in excess of approved Salaries and Remuneration Commission limits as summarized below:

| Kenya Maritime Authority Job Group | Civil Service Job Group | Maximum Loan Limit (Kshs.) | Principal Loan Amount Advanced (Kshs.) | Excess Loan Advanced (Kshs.) |
|------------------------------------|-------------------------|----------------------------|--|------------------------------|
| 8 | H | 800,000 | 1,200,000 | 400,000 |
| 3 | R | 3,000,000 | 3,350,000 | 350,000 |
| 3 | R | 3,000,000 | 3,400,000 | 400,000 |
| Total | | 6,800,000 | 7,950,000 | 1,150,000 |

The excess car loan of Kshs.1,150,000 is contrary to the Salaries and Remuneration Commission Circular No. SRC/023/12/2014 of 17 December, 2014 which provides thresholds for car loan and Mortgage Scheme benefits for various cadres of public officers in the public service.

The Management was therefore in breach of the Law.

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, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall 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 (Accrual Basis) 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, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Scheme's ability to continue to sustain its services disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of the intention to terminate the Scheme or to cease operations.

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

In addition to the responsibility for the preparation and presentation of the 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 resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Scheme'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 the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud

or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the Scheme's 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 the 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 the Scheme's financial statements and review of compliance, I consider internal control 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 Scheme's 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 the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue 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 Scheme to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of Kenya Maritime Authority Staff Mortgage and Car Loan Scheme 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

09 November, 2021

11. FINANCIAL STATEMENTS

11.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2016

| | Note | 2015-2016 <u>Kshs</u> | 2014-2015 <u>Kshs</u> |
|---|------|--------------------------|--------------------------|
| Revenue from exchange transactions | | | |
| Interest income | 1 | 3,063,635 | 4,752,262 |
| | | <u>3,063,635</u> | <u>4,752,262</u> |
| Total revenue | | <u>3,063,635</u> | <u>4,752,262</u> |
| Expenses | | | |
| General expenses | 2 | 6 | - |
| Total expenses | | <u>6</u> | <u>-</u> |
| Surplus/(deficit) for the period | | <u>3,063,629</u> | <u>4,752,262</u> |

The notes set out on pages 20 to 23 form an integral part of these Financial Statements

11.2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

| Assets | <u>Note</u> | 2015-2016 <u>Kshs</u> | 2014-2015 <u>Kshs</u> |
|--|-------------|---------------------------|---------------------------|
| Non-Current Assets | | | |
| Long Term Receivables From Exchange Transactions | 4 | 78,360,630 | 63,493,843 |
| | | <u>78,360,630</u> | <u>63,493,843</u> |
| Current Assets | | | |
| Cash and Cash Equivalents | 3 | 58,669,857 | 55,473,015 |
| | | <u>58,669,857</u> | <u>55,473,015</u> |
| Total Assets | | <u>137,030,487</u> | <u>118,966,858</u> |
| Net Assets | | | |
| Revolving Fund | 11.3 | 125,500,000 | 110,500,000 |
| Accumulated Surplus | 11.3 | 11,530,487 | 8,466,858 |
| Total Net Assets | | <u>137,030,487</u> | <u>118,966,858</u> |

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The Authority's financial statements were approved on **29th September 2020** and signed by:

Director General

Mr. Cosmas Cherop



Date..... 22/03/21

Finance Manager

Mr. Edwin Were

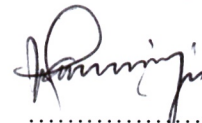
ICPAK Member No: 8140



Date..... 22/03/21

Board Chairman

Mr. Mwalimu Digore Kitambi



Date..... 22/03/21

**11.3. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED
30 JUNE 2016**

| | Staff Car Loan & Mortgage Fund | Accumulated Surplus | Total |
|--|---|--------------------------------|--------------------|
| | Kshs | Kshs | Kshs |
| Balance as at 30th June 2014 | 100,000,000 | 3,714,596 | 103,714,596 |
| Surplus for the year | - | 4,752,262 | 4,752,262 |
| Funds received during the year | 10,500,000 | - | 10,500,000 |
| Balance as at 30th June 2015 | 110,500,000 | 8,466,858 | 118,966,858 |
| Surplus for the year | - | 3,063,629 | 3,063,629 |
| Funds received during the year | 15,000,000 | - | 15,000,000 |
| Balance as at 30th June 2016 | 125,500,000 | 11,530,487 | 137,030,487 |

11.4. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2016

| | Note | 2015/2016 KShs | 2014/2015 KShs |
|---|------|---------------------|---------------------|
| Cash Flows From Operating Activities | | | |
| Receipts | | | |
| Interest received | | 3,164,154 | 4,952,263 |
| Total Receipts | | 3,164,154 | 4,952,263 |
| Payments | | | |
| General expenses | | 6 | - |
| Total Payments | | 6 | - |
| Net Cash Flows From Operating Activities | | 3,164,160 | 4,952,263 |
| Cash Flows From Investing Activities | | | |
| Proceeds from loan principal repayments | | 14,876,973 | 10,131,333 |
| Loan disbursements paid out | | (29,844,290) | (46,788,635) |
| Net Cash Flows Used In Investing Activities | | (14,967,317) | (36,657,302) |
| Cash Flows From Financing Activities | | | |
| Proceeds from revolving fund receipts | | 15,000,000 | 10,500,000 |
| Net Cash Flows Used In Financing Activities | | 15,000,000 | 10,500,000 |
| Net increase/(decrease) in cash and cash equivalents | | 3,196,842 | (21,205,039) |
| Cash and cash equivalents at 1 JULY 2015 | | 55,473,015 | 76,678,054 |
| Cash and cash equivalents at 30 JUNE 2016 | | 58,669,857 | 55,473,015 |

11.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2016

| Revenue | Original budget | Adjustments | Final budget | Actual on comparable basis | Performance difference | % |
|-------------------------------|------------------------|--------------------|---------------------|-----------------------------------|-------------------------------|----------|
| | 2015-2016 | 2015-2016 | 2015-2016 | 2015-2016 | 2015-2016 | |
| Interest income | - | - | - | 3,063,635 | 3,063,635 | - |
| Total income | - | - | - | 3,063,635 | 3,063,635 | - |
| Expense | | | | | | |
| Use of Goods & Services | - | - | - | 6 | 6 | - |
| Total Expenditure | - | - | - | - | - | - |
| Surplus for the period | - | - | - | 3,063,629 | (3,063,629) | |

Interest income and use of goods and services were not budgeted for in the consolidated budget. They have now been accounted for as "Interest income" and "use of goods and services" respectively in the financial statements for the scheme.

11.6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Fund. The accounting policies have been consistently applied to all the years presented.

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

2. Adoption of new and revised standards

a) Relevant new standards and amendments to published standards effective for the year ended 30 June 2020

| Standard | Impact |
|--|---|
| IPSAS 40: Public Sector Combinations | <p>Applicable: 1st January 2019</p> <p>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 are covered purely under Public Sector combinations as amalgamations.</p> <p>The standard has no impact to the Authority as its pension scheme is a defined contribution scheme.</p> |

b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020

| Standard | Effective date and impact: |
|---|--|
| IPSAS 41: Financial Instruments | <p>Applicable: 1st January 2022:</p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; |

| Standard | Effective date and impact: |
|---|--|
| | <ul style="list-style-type: none"> • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy. <p>The standard has no impact to the Authority as yet due to limitation in financial instruments the Authority is allowed to hold.</p> |
| <p>IPSAS 42: Social Benefits</p> | <p>Applicable: 1st January 2022</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:</p> <ul style="list-style-type: none"> (a) The nature of such social benefits provided by the entity; (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows. <p>The standard has no impact to the Authority as provision of Social Benefits doesn't fall within its mandate.</p> |
| <p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p> | <p>Applicable: 1st January 2022:</p> <ul style="list-style-type: none"> a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued. b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p> |
| <p>Other Improvements to IPSAS</p> | <p>Applicable: 1st January 2021:</p> <ul style="list-style-type: none"> a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks |

| Standard | Effective date and impact: |
|----------|---|
| | <p>b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment. Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved</p> <p>c) IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets. Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets.</p> <p>d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs). Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard</p> |

c) Early adoption of standards

The Authority did not early – adopt any new or amended standards in year 2016.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. 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.

4. Budget information

The original budget for FY 2015-2016 was approved by the National Assembly on 3rd July 2015. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Authority upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Authority didn't record additional appropriations on the 2015-2016 budget.

The Authority's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

The actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance are similar therefore no reconciliation statement has been presented.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. 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.

6. 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.

7. 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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)

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.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. 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 conditions 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 labour 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.

9. 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

10. Nature and purpose of reserves

The Authority creates and maintains reserves in terms of specific requirements.

11. 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.

12. Employee benefits – Retirement benefit plans

The Authority provides retirement benefits for its employees and directors. 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.

13. 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 exchange rate on that date. 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14. Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

15. 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 directors, the CEO and senior managers.

16. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and 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.

17. Comparative figures

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

18. Events after the reporting period

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

19. Ultimate and Holding Authority

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

20. Currency

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

21. Significant judgments and sources of estimation uncertainty

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

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

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

22. Financial risk management

The Fund's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Fund'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 Fund 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 Fund's financial risk management objectives and policies are detailed below:

a) Credit risk

The Fund 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 Authority'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 KShs | Fully performing KShs | Past due KShs | Impaired KShs |
|--|----------------------|--------------------------|------------------|------------------|
| At 30 June 2016 | | | | |
| Receivables from exchange transactions | 78,360,630 | 78,360,630 | 0 | 0 |
| Receivables from non-exchange transactions | 0 | 0 | 0 | 0 |
| Bank balances | 58,669,857 | 58,669,857 | 0 | 0 |
| Total | 137,030,487 | 137,030,487 | 0 | 0 |
| At 30 June 2015 | | | | |
| Receivables from exchange transactions | 63,493,843 | 63,493,843 | 0 | 0 |
| Receivables from non-exchange transactions | 0 | 0 | 0 | 0 |
| Bank balances | 55,473,015 | 55,473,015 | 0 | 0 |
| Total | 118,966,858 | 118,966,858 | 0 | 0 |

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 Authority has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The Authority has no significant concentration of credit risk on amounts.

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

b) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Fund Administrator, who has 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 Fund 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 2016 | | | | |
| Trade payables | 0 | 0 | 0 | 0 |
| Current portion of borrowings | 0 | 0 | 0 | 0 |
| Provisions | 0 | 0 | 0 | 0 |
| Employee benefit obligation | 0 | 0 | 0 | 0 |
| Total | 0 | 0 | 0 | 0 |
| At 30 June 2015 | | | | |
| Trade payables | 0 | 0 | 0 | 0 |
| Current portion of borrowings | 0 | 0 | 0 | 0 |
| Provisions | 0 | 0 | 0 | 0 |
| Employee benefit obligation | 0 | 0 | 0 | 0 |
| Total | 0 | 0 | 0 | 0 |

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Market risk

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

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

The Fund'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.

i. Foreign currency risk

The Authority has no transactional currency exposures as the scheme funds are in the reporting currency; Kenya Shillings.

ii. Interest rate risk

Interest rate risk is the risk that the Authority's financial condition may be adversely affected as a result of changes in interest rate levels. The Authority's interest rate risk arises from bank deposits. This exposes the Fund to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the Fund'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 Fund 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 586,699 (2015: KShs 554,731). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs 2,933,493 (2015 – KShs 2,773,654).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Capital risk management

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

| | 2015/2016 | 2014/2015 |
|---|--------------------|--------------------|
| | KShs | KShs |
| Revolving fund | 125,500,000 | 110,500,000 |
| Accumulated surplus | 11,530,487 | 8,466,858 |
| Total funds | 137,030,487 | 118,966,858 |
| | | |
| Total borrowings | 0 | 0 |
| Less: cash and bank balances | (58,669,857) | (55,473,015) |
| Net debt/(excess cash and cash equivalents) | (58,669,857) | (55,473,015) |
| Gearing | 0% | 0% |

11.7. NOTES TO THE FINANCIAL STATEMENTS

1. Interest Income

| | 2015-2016 | 2014-2015 |
|----------------------------------|------------------|------------------|
| Description | Kshs | Kshs |
| Interest Income on Bank Deposits | 3,063,635 | 4,752,262 |
| Total Interest Income | 3,063,635 | 4,752,262 |

2. General Expenses

| | 2015-2016 | 2014-2015 |
|--------------|-----------|-----------|
| Description | Kshs | Kshs |
| Bank Charges | 6 | - |
| Total | 6 | - |

3. Cash and Cash Equivalents

| | 2015-2016 | 2014-2015 |
|--|-------------------|-------------------|
| Description | Kshs | Kshs |
| On – call deposits | 39,470,914 | 41,869,902 |
| Current account | 19,198,943 | 13,603,113 |
| Total cash and cash equivalents | 58,669,857 | 55,473,015 |

| | | 2015-2016 | 2014-2015 |
|------------------------------|----------------|-------------------|-------------------|
| Financial institution | Account number | Kshs | Kshs |
| a) On - call deposits | | | |
| Kenya Commercial bank | | 39,470,914 | 41,869,902 |
| Family Bank | 095000050277 | - | - |
| Sub- Total | | 39,470,914 | 41,869,902 |
| b) Current account | | | |
| Kenya Commercial bank | 1145652417 | 10,812,942 | 3,103,113 |
| Family Bank | 095000042563 | 8,386,001 | 10,500,000 |
| Sub- Total | | 19,198,943 | 13,603,113 |
| Grand total | | 58,669,857 | 55,473,015 |

4. Receivables From Exchange Transactions

| Description | 2015-2016 Kshs | 2014-2015 Kshs |
|--|---------------------------------|---------------------------------|
| Current Receivables | 78,184,762 | 63,217,339 |
| Interest receivable | 175,985 | 276,504 |
| Total Current receivables | <u><u>78,360,747</u></u> | <u><u>63,493,843</u></u> |
| Non-Current receivables | | |
| Long term loan repayments due | - | - |
| Total Non- current receivables | <u>-</u> | <u>-</u> |
| Total receivables from exchange transactions | <u><u>78,360,747</u></u> | <u><u>63,493,843</u></u> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Related party balances

a) Nature of related party relationships

Entities and other parties related to the scheme 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. The scheme is related to the following entities:

- a) Kenya Maritime Authority;
- b) The Parent County Government Ministry;
- c) Key management;
- d) Board of Directors

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

b) Related party transactions

Transfers from Kenya Maritime Authority

| Description | 2015-2016 Kshs | 2014-2015 Kshs |
|--------------------|---------------------------|---------------------------|
| Transfers from KMA | <u>15,000,000</u> | <u>10,500,000</u> |
| Total | <u>15,000,000</u> | <u>10,500,000</u> |



12. PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR’S 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) |
|---|--|---|---|--|--|
| 1.0 | Financial statements for the Car Loan & Staff Mortgage schemes were not submitted to the Auditor-General for audit, contrary to Section 81(1 & 4) of the Public Finance Management Act, 2012 | Management appointed a technical committee to review the Car Loan & Staff Mortgage schemes with a view to ensure the schemes are properly established and anchored in relevant legal instruments (Policies & legislation) | Mr. Julius Ogutu Financial Accountant | Resolved | September 2020 |

Director General

Date.....22/03/21.....

Chairman of the Board

Date.....22/03/21.....