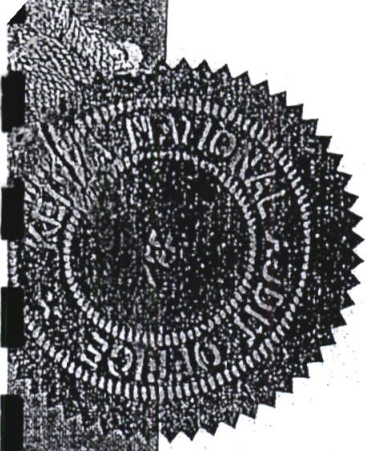




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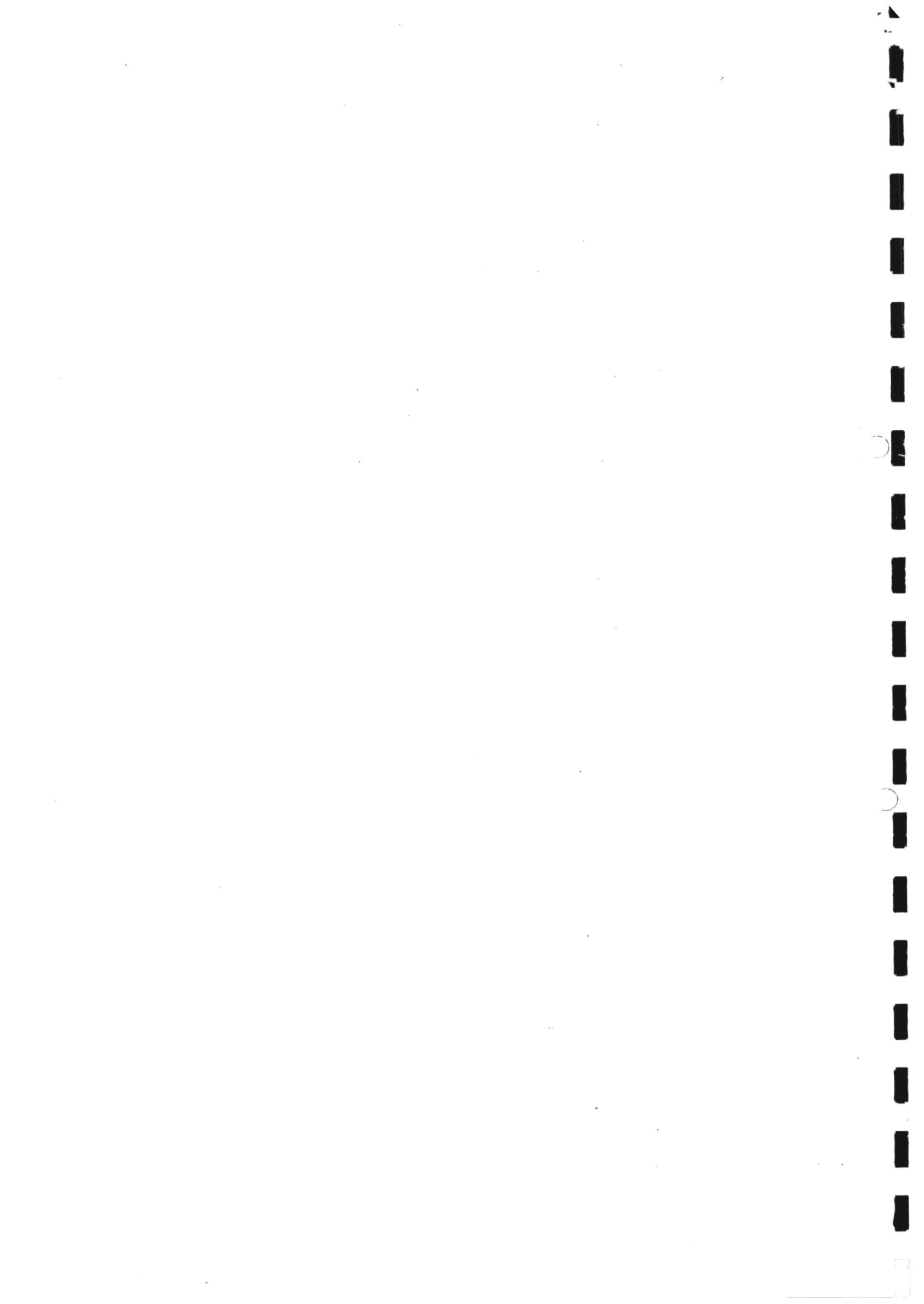
**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
EXPORT PROCESSING ZONES AUTHORITY**

**FOR THE YEAR ENDED  
30 JUNE 2014**





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**EXPORT PROCESSING ZONES AUTHORITY**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

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

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

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# I. KEY INFORMATION AND MANAGEMENT

## (a) Background information

The Export Processing Zones Authority was established in 1990 through the Export Processing Zone Act (Cap 517), for the promotion and facilitation of export oriented investments and the development of an enabling environment for investment in the export sector. The EPZA is a state corporation, under the Ministry of Industrialisation and Enterprise Development. The principal objectives of the EPZA are:

- Development of all aspects of the export processing zones with particular emphasis on provision of advice on the removal of impediments to, and creation of incentives for, export-oriented production in areas designated as export processing zones;
- Regulation and administration of approved activities within the export processing zones; and
- Protection of government revenues and foreign currency earnings.

EPZA, being a state corporation, is governed by The State Corporations Act (Cap 446) in addition to the EPZ Act (CAP 517) of the Laws of Kenya. It thus adheres to the rules and regulations stated in both Acts in addition to other relevant laws. EPZA is provided with general direction by a board comprising 15 members appointed from both private and public sectors. The board is headed by a chairman from the private sector, appointed by His Excellency, the President.

The day to day operations of EPZA are managed by a staff of 160 headed by the Chief Executive Officer, hereafter referred to as CEO, who is appointed by the Cabinet Secretary for the Ministry responsible for Industry, on recommendation by the Board. The CEO is charged with the direction of the affairs and transactions of EPZA, the exercise, discharge and performance of the Authority's objectives, functions and duties, and the administration and control of the employees of the Authority. To discharge its mandate and functions effectively, the EPZ Authority has been structured in four divisions and a number of departments. The divisions are: Business Development; Operations and Investor Support; Utilities and Technical Services; and Finance and Administration.

In addition, the Information and Communication Technology (ICT), Human Capital, Corporate Secretary, and Procurement departments report directly to the CEO. Further, the Risk Management and Audit department which reports directly to the board. Each division is headed by a General Manager and each department is headed by a Manager.

## (b) Principal Activities

To Efficiently Attract and Retain Export Oriented Investments and Trade, the Authority's Key activities are:

- Development of all aspects of the Export Processing Zones with particular emphasis on provision of advice on the removal of impediments to, and creation of incentives for, export-oriented production in areas designated as Export Processing Zones;
- Regulation and administration of approved activities within the export processing zones; and
- Protection of government revenues and foreign currency earnings.

## (c) Registered office

P.O. Box 50563-00200  
Administration Building  
Viwanda Road, Off Nairobi Namanga Highway  
Nairobi, Kenya

**(d) Contacts**

Telephone :(254) -45-662421/6  
0719-051172  
0733-683222  
E-mail: info@epzakenya.com  
Website: www.epzakenya.com

**(e) Bankers**

National Bank of Kenya  
Haile Selassie Avenue  
P.O. Box 45219-00100  
Nairobi, Kenya

Kenya Commercial Bank  
Kajiado-Namanga Road  
P.O. Box 126-00242  
Kitengela, Kenya

Bank Of Africa  
Re-insurance Plaza, Taifa Road  
P.O Box 69562-00400  
Nairobi, Kenya

Co-operative Bank of Kenya  
Co-operative House, Haile Selassie Avenue  
P.O Box 48231-00100  
Nairobi, Kenya

Housing Finance  
Rehani House, Kenyatta Avenue/Koinange Street  
P.O. Box 30088-00100  
Nairobi, Kenya

**(f) Auditors**





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






**(g) Lawyers**





Wekesa & Simiyu Advocates  
ACK Garden House  
1st Ngong Avenue  
P.O. Box 10299 - 00100  
Nairobi, Kenya

Nzei & Co Advocates, Commissioners for Oaths,  
Solanki House  
Mutonga Road  
P.O. Box 392  
Machakos, Kenya





## II. THE BOARD OF DIRECTORS

No	Passport size Photo	Director's name and key profession/academic qualifications	Concise description of each Director's date of birth, key qualifications and work experience
1		Mathenge Wanderi-Management Consultant	Born 1953. Mr. Wanderi was the Chairman of EPZA for the period under review. Mr. Wanderi is a management consultant with a long and diverse experience in both the Public and Private Sector. He holds an Msc degree in Management.
2		Walter N. Kamau-Economist	Mr. Walter Kamau is the representative of the Kenya Association of Manufacturers at the board. Mr. Kamau has over 10 years' experience in Public sector in areas of trade and international Policy. He also has over 19 years of experience at KAM on areas of regional Integration policies, bilateral agreements and International trade agreements. Mr. Kamau serves as the Secretary to KAM Trade and Tax Committee and Co-Chair of Kenya's National Monitoring Committee on non-tariff barriers He holds Master's degree in Economics.
3		Laban O. Rao-Industrialist	Mr. Laban Onditi Rao is the representative of the Kenya National Chamber of Commerce and Industry at the Board. Mr. Rao is the Managing Director of Scorpion Construction Limited and the Vice chair of Kenya National Chamber of Commerce and Industry. He holds Diploma in Plant Engineering.
4		Kenneth Nyachae-Marketing Consultant	Mr. Kenneth Nyachae is a Member of the Board from the Private Sector. Born in 1959. Mr Nyachae holds MBA with a bias in Marketing, from the University of Bridgeport, in CT, USA and is currently the Chairman of Kenfidet Insurance Brokers Limited. He has over 25 years' experience in both the Marketing of various industrial products and Insurance business. Mr. Nyachae is the Chair of the Strategy, Operations and Investments Committee.

5		Ahmed Abdi-Lawyer	<p>Mr. Ahmed Abdi is a Member from Private Sector. Born in 1974, Mr. Abdi has over 14 years' experience in development programming, management and governance in national NGO's, International humanitarian organizations and UN Agencies. Mr. Abdi is the Executive Director of Relief, Reconstruction and Development Organization (RRDO). Mr. Ahmed is the Chair of the Audit Committee.</p>
6		Amina T.S. Said - Advocate	<p>Ms. Amina T. S. Said is a Member from the Private Sector. Born in 1976, Ms. Said is an Advocate of the High Court of Kenya and holds Master's degree in International Law from the University of Westminster, London. She has worked for over 9 years as a legal officer with TSS Group of Companies. Her experience lies in commercial law with a diverse background in the private sector in areas of tea export, transportation, flour milling and textiles. Ms. Said is the Chair of the Finance and Staff Committee.</p>
7		Moses Ikiara-Economist	<p>Dr. Moses Ikiara is the Managing Director of Kenya Investment Authority and represents Kenya Investment Authority at the Board. Dr. Ikiara holds a PhD in Environmental and Natural Resource economics. Born in 1966, Dr. Ikiara has over 15 years' experience in Public Policy and Analysis.</p>
8		Hezekiah B. Okeyo-Scientist	<p>Mr. Hezekiah Okeyo is the representative of the Principal Secretary, Ministry of Industrialization and Enterprise Development at the Board. Mr. Okeyo has an MBA and MSC in Environmental Science and Technology. Born in 1963, he is the Senior Assistant Director of Industries and acting Director of the Department of Micro and Small Industries in the Ministry of Industrialization and Enterprise Development.</p>
9		Charles Koori-Economist	<p>Mr. Charles Koori is the representative of the Governor, Central Bank of Kenya at the Board. Born in 1958, Mr Koori holds MA. Degree in Economics and the Director of Research at the Central Bank of Kenya (CBK). Mr. Koori has over 30 years' experience in Research and Monetary matters gained in his career at the CBK.</p>

11		Abigail M. Mukoiwe-Laloo Economist	Vice Chair of the National Land Commission. She holds Masters in Urban Management and has over 20 years' experience in land management and governance matters.
12		Daniel Mutua-Under Secretary	Mr. Daniel Mutua is the representative of the Principal Secretary, the National Treasury. Born in 1967, Director Mutua holds MBA and is the Under Secretary at the National Treasury. He has over 16 years' senior management, in coordinating Government Investment Functions, Public Enterprise reform and Public Private Partnerships at the Ministry.
13		Cyrille Nabutola-Chief Executive	Mr. Cyrille Nabutola is the Chief Executive Officer of EPZA. Born in 1959, Mr. Nabutola holds MBA in Strategic Management and has over 20 years of experience in senior management positions gained in a number of Corporations i.e. Total, G4S and National Media Group.
14		Maria Ouya- Advocate	Ms. Maria Ouya is the Corporate Secretary of EPZA. She holds a Bachelor of Laws (LLB), Postgraduate Diploma in Laws and an MBA. Ms. Ouya is a Certified Public Secretary, a Advocate of the High Court of Kenya and an Associate Member of the Institute of Chartered Arbitrators. She has over 20 years' experience in legal matters.

### III. MANAGEMENT TEAM

Manager's passport-size photo, name, and key profession/academic qualifications	Area of responsibility	Concise description of each Senior Manager's date of birth, key qualifications and work experience
 Cyrille Nabutola MBA-Strategic Management	Chief Executive	Mr. Cyrille Nabutola is the Chief Executive Officer of EPZA. Born in 1959, Mr. Nabutola holds MBA in Strategic Management and has over 20 years of experience in senior management positions gained in a number of Corporations i.e. Total, G4S and Nation Media Group.
 Benter A. Omollo MBA-Finance MA-PP&M MICPAK/ICPSK B.Coms- Finance	General Manager, Finance & Administration	Mrs Benter A. Omollo is the General Manager, Finance & Administration. Born in 1968, she holds MBA (Finance), M.A.PPM, Bachelor of Commerce (Finance), CPA (K), CPS (K) and a member of ICPAK/ICPSK, and is doing PhD in Business Administration (Finance) with over 15 years' experience in Senior management positions in finance gained from KIWASCO, Kenya Maritime, C-MAD and Lake Basin Dev. Company and EPZ Authority.
 Margaret Waithaka MBA-International Business Marketing	General Manager, Business Development	Born in 1960 Ms. Waithaka is a BSc. Chemical Engineering graduate with an MBA in Marketing/International Business and a professional diploma in marketing. She has international work experience in petroleum industry operations, economic policy advocacy, trade development and investment promotion, working for Optimum Lubricants, KAM, Esso Kenya Ltd, Esso Petroleum PLC (UK), UNDP (South Africa), Saint Mary's University (Canada) and EPZ Authority.
 Fanuel Kidenda MBA-Strategic Management	General Manager, Operations & Investor Support	Mr. Fanuel Kidenda is the General Manager – Operations and Investor Support, EPZA. Born in 1974, he holds a MBA (Strategic Management), a Bachelor of Commerce (Marketing) and is currently finalizing his dissertation for a PhD in Business Administration (Strategic Management). Fanuel also holds certifications in Industrial Zone Planning and Development, Entrepreneurship, Export Marketing, Counselling and Investment Promotion. He has over 10 years' experience in senior management positions in the areas of Investments Promotion, Project Planning, Resource Mobilization, Marketing and Operations



Thomas O. Soigwa  
MBA-Strategic Management

General manager,  
Technical Services

Utilities & Technical Services. He holds MBA (Strategic Management), B.A (Economics) and a member of Marketing Society of Kenya, with over 15 years' experience in Senior management positions gained from Kenya Airways, Barclays Bank of Kenya, East African Portland Cement Company, Housing Finance and Coast Development Authority.



Maria L. O. Ouya  
LLB,MBA

Corporate Secretary

Ms. Maria Ouya is the Corporate Secretary of EPZA. She holds a Bachelor of Laws (LLB), Postgraduate Diploma in Laws and an MBA. Ms. Ouya is a Certified Public Secretary, an Advocate of the High Court of Kenya and an Associate Member of the Institute of Chattered Arbitrators. She has over 20 years' experience in legal matters.



Benjamin Chesang  
MBA-Strategic Management

Manager, Research, Policy and Planning

Mr. Benjamin Chesang is the Manager Research, Policy and Planning at EPZA. Born in 1965, he holds a BA in Economics and an MA in Economics. He has over 20 years' experience in public policy and senior management.



Catherine Rewa  
MSc-Human Resource Management

Manager, Human Resource

Catherine Rewa is the Human Resource Executive and holds MSc-Human Resource Management. She has over 20 years' experience in human resource management from civil service and EPZ. Authority.



Jorum Ngunyi  
MBA-Accounting

Manager, Risk and Audit

Mr. Jorum Ngunyi is the Risk and Audit Manager EPZA. He holds MBA in Accounting, BSc., CPA(K), CSIA; a member of ICPAK and IIA, and has 10 years of experience in risk management and auditing gained from Kenya National Audit Office, NEMA and JKF.



Beatrice Njenga  
MBA-IBM,MCIPS

Manager, Procurement & Administration

Ms. Beatrice Njenga is the Procurement and Administration Manager. Born in 1981, Ms. Njenga holds an MBA (International Business Management), Professional Graduate Chartered Institute of Purchasing & Supplies, Bachelor of Commerce (Marketing) and a member of KISM and CIPS. She has seven years' experience in senior management positions gained from NSSF and KenInvest.



Elijah Odhiambo, MBCS, MCP  
BSc.-ICT Management

Manager, Information  
Communication Technology

Mr. Elijah Odhiambo is the Manager, Information Communication Technology. Born in 1973 he holds a Bsc.in ICT management and a Diploma in electronics engineering. He is also a Microsoft Certified Professional (MCP), a Cyberoam Certified Network Professional (CCNSP), a Member of (MBCS) and ISACA. He has over 15 years' experience in ICT management and previously served at the Kenya School of Government and in the private sector.

## CHAIRMAN'S STATEMENT

On behalf of the Board, I have the pleasure of presenting the Annual Report and Financial Statements for the year ended 30 June 2014.

### **Economy**

The world economy is estimated to have grown by 3.0% in 2013 as compared to revised growth of 3.1% in the previous year. However, growth in Sub-Saharan Africa and the East African Community (EAC) remained relatively robust with real GDP estimated to have expanded by 6.1 per cent in 2013. This was due to an increase in trade and investment with emerging market economies.

The Kenyan economy recovered from the major macro-economic challenges which included the runaway inflation rates, volatile exchange rates and high interest rates that negatively affected the economy in the previous year. The inflation averaged 5.7% down from 9.4% registered the previous year while the Gross domestic Product (GDP) grew slightly from 4.6% to 4.7%. The manufacturing sector grew by 4.8% compared to the 3.2% achieved the previous year. The accelerated growth was mainly due to increase in investor confidence, easing of inflationary pressure and stable exchange and lending interest rates. The Central Bank's efforts to lower the bank lending rates together with the government's fiscal prudence is expected to stabilize macro-economic fundamentals with a view of stabilizing the economy in the coming year.

### **Investment environment**

Export Processing Zones contribution to the national economy has been rising steadily over the years. In financial year 2013-14, EPZ contribution to manufacturing sector output rose to 4.58% from 4.25% registered in the previous year. During the year under review, the export processing zones contribution to the total manufacturing sector employment accounted for 14.12% from 12.77% posted in the year 2012-13. EPZ contribution to Kenya's total exports showed that it increased from 7.72% in 2012 to 8.84% in the year 2013. Contribution to Gross Domestic Product (GDP) at market price of the economy has risen from 1.13% in 2009 to 1.32% in 2013.

### **The Board**

The Board is committed to ensuring the Authority's prosperity by collectively directing its affairs whilst meeting the diverse interests of stakeholders. The Authority has a Board Charter that guides the operation of the Board as well as defining the roles and responsibilities of the Directors and Management. The Board strives to observe the highest standards of corporate governance and corporate ethics in providing overall policy and strategic direction of the Authority. Through the Board's diversity and broad based guidance, the Authority has been able to make consistent improvement in its operations.

During the year, a new strategic plan 2014-19 was finalised and it is expected that the new plan will navigate the EPZ program into a bright future to successfully deliver on its mandate.

### **The future and conclusion**

The EPZ program has made her share of contribution to Kenya's economy especially employment creation, attraction of new investments and value addition among others. The achievement has been attained against a backdrop of unfavorable local and international business environment. The program has an opportunity to increase her role if the challenges are addressed.

Although the performance momentum recorded in 2013-14 is expected to be maintained in 2014-15, high cost of production, high interest rates and increased international competition are some of the factors which are likely to play a key role in the performance of the program going forward.

### **Appreciation**

Lastly, I wish to express my sincere appreciation to my fellow Board members, management and staff for their dedication which has resulted in the delivery of improved performance in 2013-2014 financial year. This has also been made possible through the continued patronage and spirited support of our investors and other stakeholders. Finally, I would like to thank the government for the continued support, guidance and a good working relationship.

  
Mathenge Wanderi

Chairman

#### IV. REPORT OF THE CHIEF EXECUTIVE OFFICER

I am delighted to present the annual report and financial statements for the year ended 30 June 2014.

##### Operating Results

The financial year 2013-14 was a favourable one for the Export processing Zones Authority. Most of the operating and financial indicators exhibited an upward trend. The Authority posted an operating surplus of Kshs.51.99 million compared to a deficit of Kshs.2.40 million realized in financial year 2012-13. This is a commendable growth on last year's performance attributable to increase in billing of water customers and increased collection of rental incomes and gain on valuation of biological assets.

Total income grew to Kshs.422.32 million as compared to Kshs.334.89 Million achieved in financial year 2012-13 representing a 26% growth. The Appropriation- in- Aid was Ksh.405.55 million (2012-2013-Kshs.324.88 million) while the recurrent grant from the government of Kenya (GOK) totalled Kshs.118.4 million (2012-13-Kshs.103.6 million). The Authority also received Kshs.180.75 million (FY 2012-13-Kshs.51.58 million) in development grant.

To support the generation of higher revenues and increased operations, total recurrent expenditure amounted to Kshs.400.28 million as compared to Kshs.344.79 million.

##### Performance of EPZ programme

The EPZ program experienced growth in the year 2013-14 as evidenced by performance of key indicators compared to the previous year. The number of gazetted zones rose to 50 in the year under review from 47 in 2012. Exports and total sales value increased by 11.2% and 13.6% to stand at Kshs 44,427 million and Kshs. 50,294 million respectively. Sales to the domestic market also exhibited an upward trend from Kshs 3,322 million in 2012 to Kshs 4,601 million in 2013.

Direct local employment expanded by 12.6 % from 35,501 persons recorded in 2012 to 39,961 persons in 2013, as a result of some EPZ firms which expanded their operations.

Cumulative capital investment in the form of equipment, machinery and other funds invested by the 85 operational enterprises increased by 24.5% to Kshs 47,979 million in 2013 from Kshs 38,535 million recorded in the previous year. Imports also rose by 9.8 % to stand at Kshs. 27,413 million in the year under review reflecting increase of activities within the zones and by extension of international trade.

There were 21 approvals with a potential investment of Kshs 5.1 billion, 3,818 jobs and year one sales valued at Kshs 7.6 billion in the year 2013-14 compared with 20 approvals with a potential investment of Kshs 3.8 billion, 5,026 jobs and year one sales valued at Kshs 7.3 billion in the previous year. The number of gazetted zones as at the end of June 2014 stood at 47 from 45 during the previous year, out of which 45 are privately owned and operated, while 2 were public.

##### Operational challenges

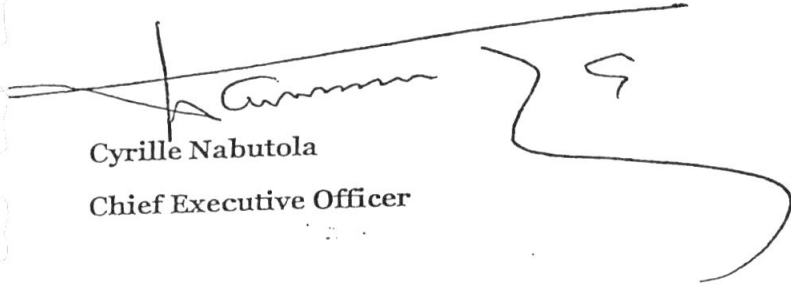
The adverse impact as a result of unfavourable local business environment which is characterized by high cost of production especially power tariffs remains a challenge towards the realization of the EPZ program potential. This is aggravated by competition from more efficient Asian apparel/garment exporting countries like China, India, Bangladesh, Cambodia and Vietnam among others. Another challenge to the program is the enlargement of the domestic market to include the East African Community (EAC) which means that EPZ firms have to sell only 20% of their annual production into the domestic market. This has adversely affected enterprises targeting EAC market.

##### Human resource

Staff strength as at June 30, 2014 stood at 164 employees as compared to 30 June 2013 which was 136 employees. In order to optimise the operations of the Authority additional 28 were competitively recruited as per the staff establishment in Utilities and Technical services, Finance and administration and Operations divisions.

## Conclusion

On behalf of the Management team of Export Processing Zones Authority, I wish to thank the Board for its prudent guidance and direction and the entire staff for their dedication and hard work and EPZ investors who are our customers for their support.



Cyrille Nabutola  
Chief Executive Officer

## V. CORPORATE GOVERNANCE STATEMENT

The Board encourages the practice of good corporate governance amongst its Directors and staff in the conduct of the Authority's business and operations. The Board has an approved Code of Conduct and Ethics for its Directors and employees which emphasizes that the Directors and staff should not compromise the interests of the Authority while dealing with customers and suppliers. The Code also gives employees the responsibility of ensuring legal and statutory compliance to all laws and regulatory requirements. In addition, the Code deals with situations relating to best practices as well as those situations that may give rise to conflict of interest in the conduct of the Authority's operations.

### Role and Responsibilities

The Board has a Board Charter that guides its operations as well as define the roles and responsibilities of the Directors. The Board has the primary responsibility for the stewardship of the Authority, for guiding and monitoring the business and affairs of the Authority including compliance with the Authority's corporate governance objectives. Formulation and direction of the corporate strategy of the Authority rests with the Board while the implementation of such strategy and day to day management of the Authority's affairs is delegated to management.

### The Board of Directors

The list of Directors who served during the reporting period is on page v. The Board comprises of Directors with varied experiences and skills mix aimed at supporting and directing the strategy of the Authority. Conduct of the business of the Board is done in compliance with the Board Charter. The Directors are guided by the government's policy on Appointment, Development and Retirement which also defines the terms of service for Directors.

### Directors' Training and Development

The Board encourages individual Directors to continuously improve their skills through relevant training and development programs available in the market. In addition, the Board members collectively undertake training or attend identified workshops and seminars on a need basis. In the reporting period, the chairman of the Board was sponsored to attend The Balance Score Card training program organized by the Balance Score Card Eastern Africa Institute.

### Board Committees

The Board has delegated some of its mandate to Board Committees. There are three standing committees of the Board which meet independently i.e. Board Audit Committee, Finance and staff and Strategy and Operation. The Committees report to the Board on quarterly basis. The decisions of the Committees must of necessity be ratified by the Board. The Committees define their schedule of meetings including the agenda. Each Committee is guided by the terms of reference as delegated by the Board.

### Control Environment

The Authority has identified the various processes that contribute to the value chain. The processes are supported by well documented procedures across the organization. The efficiency and effectiveness of the internal controls is tested through periodic audits conducted by the internal audit department. In addition, the Authority conducts periodic internal audits in line with the ISO 9001:2008 requirements.



## VI. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Authority has been involved in a cross section of diverse corporate social responsibility activities broadly touching on environment, social and economic interventions. EPZA has been involved in activities ranging from education, health, environmental activities that have been directed at the community.

EPZA continues to actively engage in environmental conservation and management programmes as its contribution to cleaner and better environment so as to deliver on environmental concerns other than the social and economic considerations. The Authority embarked on a continuous awareness creation towards Environment protection and conservation. The Authority initiated activities such as tree planting, community clean ups and consultative forums with employees and investors on issues such as waste management and water conservation.

## VII. 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.

### Principle activities

The principle activities of the entity are promotion and facilitation of export-oriented investment and the development of an enabling environment for such investments

### Results

The results of the entity for the year ended June 30, 2014 are set out on page 1 to 40

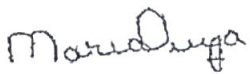
### Directors

The members of the Board of Directors who served during the year are shown on page 3 to 5 in accordance with the Export Processing Zones Authority's Act Cap 517 and State corporations Act.

### Auditors

The Authority is audited by Auditor General in accordance with the Section 81 of the Public Finance Management (PFM) Act, 2012.

By Order of the Board



Maria Ouya  
Corporate Secretary  
Nairobi  
Date: 12<sup>th</sup> May 2015

## VIII. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 8 of the State Corporations Act, require the Directors to prepare financial statements in respect of that entity, which give a true and fair view of the state of affairs of the EPZA at the end of the financial year/period and the operating results of the EPZA for that year/period. 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.

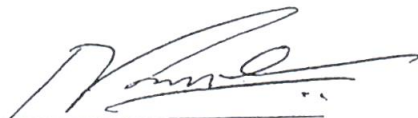
The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year (period) ended on June 30, 2014. This responsibility includes: (i) maintaining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

The Directors accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International 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.

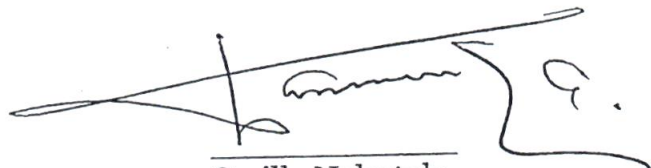
Nothing has come to the attention of the Directors to indicate that the Export Processing Zones Authority will not remain a going concern for at least the next twelve months from the date of this statement.

### Approval of the financial statements

The EPZA's financial statements were approved by the Board on 12<sup>th</sup> MAY 2015 and signed on its behalf by:



Mathenge Wanderi  
Chairman



Cyrille Nabutola  
Chief Executive Officer

REPORT OF THE INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENT OF EXPORT PROCESSING ZONES AUTHORITY FOR THE YEAR ENDED 30 JUNE 2014



## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON EXPORT PROCESSING ZONES 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 Export Processing Zones Authority set out on pages 21 to 41, which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, statement of changes in net assets, statement of cash flows and the 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 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

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

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

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

#### Auditor-General's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 the management, as well as evaluating the overall presentation of the financial statements.

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

## **Basis for Qualified Opinion**

### **1. Property , Plant and Equipment**

#### **1.1 Land**

As previously reported, included in property, plant and equipment balance of Kshs.7,252,100,000 as at 30 June 2014 are two parcels of land Ref: LR. No. Oloolotikoshi/Kitengela/61 and 70, measuring 2 hectares and valued at Kshs.2,250,000. Although the parcels of land were acquired and gazetted through Gazette notice Nos.2802 and 2803 of 5 July 1991, the Authority had not obtained ownership documents as at 30 June 2014.

#### **1.2 Boreholes**

In 2007, the then Ministry of Water and Irrigation Development constructed two boreholes on EPZA land, one at the disputed parcel of land next to PCEA Church Kitengela Township and the other next to the EPZA police post. The management has indicated that ownership of the boreholes was handed over to the Authority without formal documentation and that the boreholes have been tested and confirmed to be economically viable. However, no evidence has been provided for audit review to confirm that the two boreholes have been valued and recognized as assets of the Authority.

In the circumstances, it has not been possible to confirm that the property, plant and equipment balance of Kshs.7,252,100,000 as at 30 June 2014 is fairly stated.

### **2. Trade and Other Receivables**

As previously reported, included in trade and other receivables balance of Kshs.478,995,000 as at 30 June 2014 is an amount of Kshs.10,536,708 which relates to advances and outstanding imprest issued to ex-staff. The figure includes Kshs.8,690,786 issued to the former Chief Executive Officer of the Authority. The former CEO disregarded the Government code of regulations (H10) on advance of salary which provides that an advance of not more than one month salary may be granted to an officer owing to circumstances beyond his/her control. It further provides that advance may be granted only when an officer has no other outstanding salary advance and

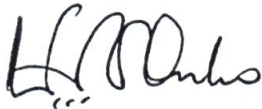
should not be more than two within one year. The Authority's internal management policy also provides that in the absence of a written arrangement, recoveries of advance to staff should be done through the payroll which was contravened.

Further by the former CEO using the Authority's senior officers approved and authorized salary advances and other forms of advances for himself without seeking approval from the Board of Directors. This was in total disregard of Government regulation and the Authority's staff manual governing salary advances. In addition, amount of Kshs.980,919.19 granted to him as imprest should have been surrendered within 48 hours after completion of assignment for which the imprest was issued. This amounts to violation of existing regulation and abuse of office by the former CEO.

Consequently, the accuracy and recoverability of trade and other receivables balance of Kshs.478,995,000 as at 30 June 2014 could not be confirmed.

### **Qualified Opinion**

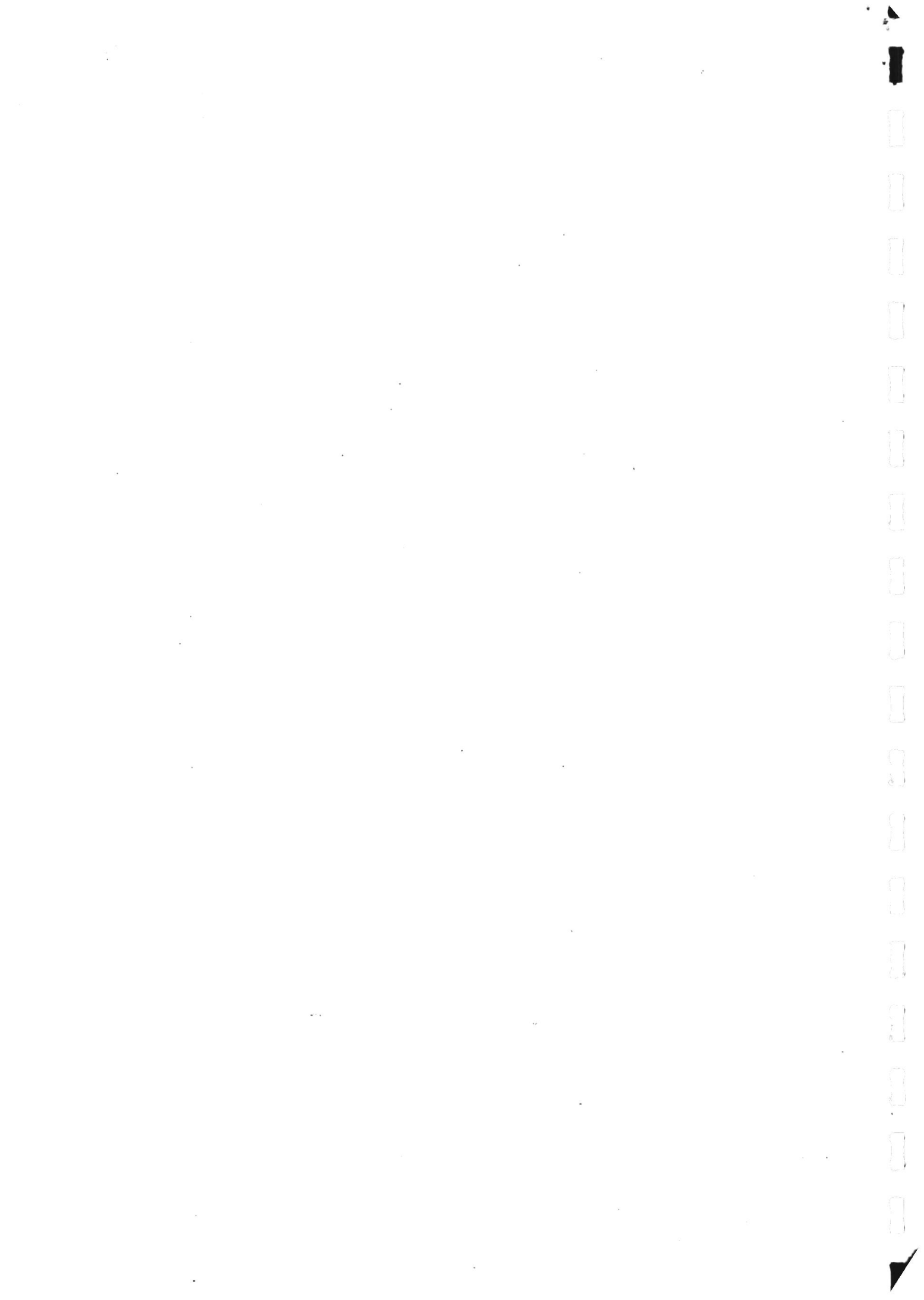
In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Authority as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the Export Processing Zones Authority Act, Cap 517 of 1993(Revised) of the Laws of Kenya.



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

**Nairobi**

**20 May 2015**



## STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2014

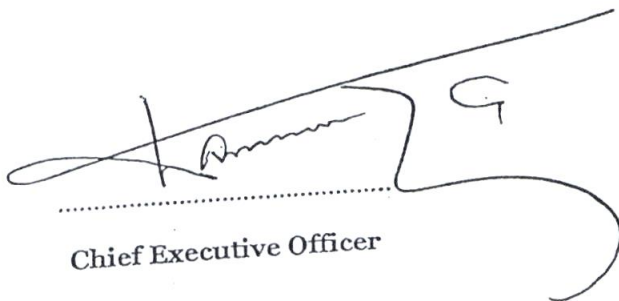
	Notes	2013/2014	2012/2013
		Kshs,000	Kshs ,000
Revenue from non-exchange transactions	1a	149,072	129,986
Revenue from exchange transactions	1b	<u>273,250</u>	<u>204,904</u>
<b>Total revenue</b>		<u><b>422,322</b></u>	<u><b>334,890</b></u>
<b>Expenses</b>			
Employee costs	2	236,825	196,052
Board expenses	3	6,125	7,880
Administrative Expenses	4	22,574	21,882
Other operating expenses	5	102,429	101,538
Depreciation	6	32,327	17,441
<b>Total expenses</b>		<u><b>400,280</b></u>	<u><b>344,793</b></u>
<b>Other gains</b>			
Gains on valuation of biological assets	12	27,554	-
Gain on sale of assets	7	1,762	-
Gain on foreign exchange transactions		628	7,505
		<u>29,943</u>	<u>7,505</u>
<b>Surplus/Loss before tax</b>		<u><b>51,986</b></u>	<u><b>(2,398)</b></u>
<b>Surplus/Loss for the period</b>		<u><b>51,986</b></u>	<u><b>(2,398)</b></u>

The notes set out on pages 27 to 43 form an integral part of the Financial Statements

XI. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

		2013-14	2012-13
	Note	Kshs.000	Kshs.000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	296,595	244,075
Trade and Other Receivables	9	478,995	414,563
Inventories	10	1,214	1,686
		<u>776,804</u>	<u>660,324</u>
<b>Non-current assets</b>			
Property, plant and equipment	11	7,252,100	7,130,140
Biological assets	12	148,750	119,978
		<u>7,400,850</u>	<u>7,250,118</u>
<b>Total assets</b>		<u>8,177,654</u>	<u>7,910,442</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	13	51,099	139,559
Current Deferred income		145,452	5,991
		<u>196,552</u>	<u>145,550</u>
<b>Non-current liabilities</b>			
Customer Deposits	14	112,086	103,996
Long term deferred Income	15	912,973	732,223
		<u>1,025,059</u>	<u>836,219</u>
<b>Total liabilities</b>		<u>1,221,610</u>	<u>981,769</u>
<b>Net assets</b>		<u>6,956,044</u>	<u>6,928,673</u>
Revaluation Reserves		6,728,206	6,728,206
Accumulated surplus	16	227,838	200,467
<b>Total net assets and liabilities</b>		<u>6,956,044</u>	<u>6,928,673</u>

The Financial Statements set out on pages 21 to 43 were signed on 12<sup>th</sup> MAY 2015 behalf of the Board of Directors

  
.....  
Chief Executive Officer

  
.....  
Chairman

## XII.

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

	Revaluation Reserves Kshs '000	Accumulated Surpluses Kshs '000	Total Kshs '000
<b>Balance as at 30 June 2012</b>	1,860,422	181,247	2,041,669
	-	-	
Deficit for the period	-	(2,398)	(2,398)
Revaluation Reserves	4,867,784	-	4,867,784
Restatement on of valuation of assets	-	21,618	21,618
<b>Balance as at 30 June 2013</b>	<b>6,728,206</b>	<b>200,467</b>	<b>6,928,673</b>
Surplus for the period	-	51,986	51,986
Restatement of accumulated surplus	-	(24,615)	(24,615)
Transfers to accumulated surplus	-	27,370	27,370
<b>Balance as at 30 June 2014</b>	<b>6,728,206</b>	<b>227,838</b>	<b>6,956,044</b>

**XII. STATEMENT OF CASHFLOWS**  
For the Year ended 30 June 2014

	Notes	2013-2014 Shs'000	2012-13 Shs'000
<b>Cash flows from operating activities</b>			<b>(94,550)</b>
Cash absorbed from operations	17	(61,106)	
Interest Income-Fixed Deposit		14,966	21,267
Net cash (absorbed in)/generated from operating activities.		<u>(46,140)</u>	<u>(73,283)</u>
<b>Cash flows from investing activities</b>			<b>(40,704)</b>
Purchase of property, plant and equipment	11	(154,987)	-
Proceeds from sale of fixed assets		2,462	
		<u>(152,525)</u>	<u>(40,704)</u>
<b>Cash flows from financing activities</b>			<b>87,580</b>
Grant received		251,185	
		<u>251,185</u>	<u>87,580</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>52,520</b>	<b>(26,407)</b>
Cash and cash equivalents at start of year		244,075	270,482
<b>Cash and cash equivalents at end of year</b>		<u><b>296,595</b></u>	<u><b>244,075</b></u>

The notes set out on pages 27 to 43 form an integral part of the Financial Statements

I. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget	Reallocation in the Year	Final budget	Actual on Comparable basis	Performance Difference
	2013-2014 Kshs '000	2013-2014 Kshs '000	2013-2014 Kshs '000	2013-2014 Kshs '000	2013-2014 Kshs '000
<b>Revenue</b>					
Application Fees	744		744	805	62
Licence Fees	27,770		27,770	29,832	2,062
Rental Income	81,570		81,570	157,678	76,108
Water sales	69,393		69,393	87,501	18,108
Other Incomes	69,120		69,120	57,387	(11,733)
Government grant (Recurrent)	69,948	31,000	100,948	118,435	17,487
<b>Total income</b>	<b>318,545</b>	<b>31,000</b>	<b>349,545</b>	<b>451,638</b>	<b>102,093</b>
<b>Expenses</b>					
Personnel Emoluments	218,773		218,773	213,025	5,748
Goods, Utilities, Supplies & Services	6,336		6,336	6,004	332
Communication Supplies & Services	5,054	(2,000)	3,054	4,799	(1,745)
Investments Promotion Expenses	3,482	1,000	4,482	4,976	(494)
Domestic travel & Subsistence	6,580		6,580	8,201	(1,621)
Foreign travel & Subsistence	9,839	(1,000)	8,839	7,498	1,341
Printing & advertising, Information supply & services	5,420	(1,000)	4,420	6,790	(2,371)
Rental of produced assets	7,388		7,388	4,804	2,583
Training Expenses	10,000	2,000	12,000	14,814	(2,814)
Hospitalities Supplies & services	7,935	1,000	8,935	10,401	(1,466)
Insurance costs	22,200		22,200	23,947	(1,747)
Specialized materials and supplies	4,640	(1,000)	3,640	3,642	(2)
Office general supplies	2,000	1,000	3,000	3,342	(342)
Fuel, Oil and Lubricants	3,280		3,280	3,068	212
Other Operating expenses	34,511		34,511	45,092	(10,581)
Maintenance - Vehicles and Other Transport	1,860		1,860	2,133	(273)
Maintenance - Other Assets	4,230		4,230	4,790	(560)

Depreciation (Consumption of Fixed Capital)

Total Expenditure

Surplus for the period

18,100		18,100	32,327	(14,227)
371,626	-	371,626	399,652	(28,027)
(53,081)	31,000	(22,081)	51,986	74,067

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

The Authority's statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the entity and all values are rounded to the nearest thousand (Ksh000). 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 indirect method. The financial statements are prepared on accrual basis.

**2. Summary of significant accounting policies**

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

**a) Revenue recognition**

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

**Fees**

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

**Government Grants**

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

Grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Authority will comply with all attached conditions.

Where a grant is related to an asset, the grant is presented in the statement of financial position and is credited in the statement of comprehensive income over the periods and in the proportions in which depreciation expense on those assets they are used to finance is recognized.

**ii) Revenue from exchange transactions – IPSAS 9**

**Rendering of services**

The entity recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

**Sale of goods**

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

**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 the yield to the principal outstanding to determine interest income each period.

**Rental income**

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

**b) Budget information – IPSAS 24**

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

**c) Taxes – IAS 12**

**Current income tax**

The Authority is Zero rated in its tax status. Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Authority operates and generates income.

**d) Property, Plant and Equipment – IPSAS 17**

Property, plant and equipment are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against other reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to profit and loss) and depreciation based on the asset's original cost is transferred from 'other reserves' to retained earnings.

Depreciation is calculated using the straight-line method to allocate their cost or re-valued amounts to their residual values at the depreciation rates as follows:

Buildings and Infrastructure	1%
Motor Vehicles	25%
Office Furniture & Equipment	10%
Computers	33 1/3%

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in the income statement. When revalued assets are sold, the amounts included in other reserves relating to that asset are transferred to retained earnings.

**e) Lease – IPSAS 13**

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Authority.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

#### **f) Intangible assets – IPSAS 31**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are valued at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date

#### **g) Inventories – IPSAS 12**

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

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

i) Raw materials: purchase cost using the weighted average cost method

ii) 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.

#### **h) Trade Receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

#### **i) Trade Payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### **j) Cash and Cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

#### **k) Provisions – IPSAS 19**

Provisions are recognised when: the Authority has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

#### ***D) 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.

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

The Authority creates and maintains reserves in terms of specific requirements. Surplus made during the year is credited to the accumulated surplus reserve while Deficit is debited to the accumulated reserve at the end of financial year.

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

The Authority recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

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

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

The Authority operates defined contribution retirement benefit scheme for its employees while employees who are on contract qualify for gratuity upon end of the contract. The Authority and all its employees also contribute to the appropriate national Social Security Fund, which are defined contribution schemes. A defined contribution plan is a pension plan under which the Authority pays fixed contributions into a separate entity. The Authority has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods

For defined contribution plans, the Authority pays contributions to publicly or privately administered plans on a mandatory, contractual or voluntary basis. The Authority has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

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

Items included in the financial statements of each of the Authority's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in 'Kenyan Shillings (Kshs.)', which is the Authority's functional currency.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other income' or 'other expenses'

#### **q) Borrowing costs – IPSAS 5**

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.

#### **r) Related parties – IPSAS 20**

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

#### **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 – IPSAS 1**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

#### **i) Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The Authority based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Authority. These areas include valuation of biological assets, recoverability of long outstanding debt and any tax matters that may arise.

#### **Biological assets**

In determining the fair value of biological assets, management uses estimates based on historical data relating to number of trees and market prices per stem of tree. The methodology and assumptions used for estimating both the value and timing of future cash flows are reviewed regularly to reduce potential differences between market estimates and actual costs. The significant assumptions used are set out in note under biological assets.

#### **ii) 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

#### **u) Risk Management**

The Authority's activities expose it to a variety of financial risks, market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest risk and price risk), credit risk and liquidity risk. The Authority's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its performance.

#### **i) Credit Risk**

Credit risk is managed on an Authority basis. Credit risk arises from deposits with banks and trade and other receivables. Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Authority.

Credit risk is managed by both Finance and Utilities and Technical Division Departments (UTS). Finance is responsible for managing and analysing credit risk for each new client before being contracted or recruited.

For banks and financial institutions, only reputable well established financial institutions, are accepted. For trade receivables, the Authority's finance department assesses the credit quality of each customer, taking into account its financial position, past experience and other factors.

**ii) Liquidity Risk**

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents.

Management perform cash flow forecasting and monitor rolling forecasts of the Authority's liquidity requirements to ensure it has sufficient cash to meet its operational needs

The Authority's approach when managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Authority's reputation. Some of the cash held by the Authority, over and above the amounts required for working capital management are invested in interest bearing fixed deposit accounts.

**iii) Market Risk**

Market risk is the risk that the value of an investment will decrease due to movement in market factors. The Authority does not hold any financial instruments subject to market/price risk.

**v) Subsequent events – IPSAS 14**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2014.

## 1. Revenue

a) Revenue from Non-Exchange Transactions	2013-14 Kshs.000	2012-13 Kshs.000
Application and Licence fees	30,637	26400
Recurrent Grant (GoK)	118,435	103,586
	<u>149,072</u>	<u>129,986</u>
b) Revenue from Exchange Transactions		
Water Sales	87,501	72,218
Rental Income	157,678	101,567
Interest from Fixed deposits	14,966	21,266
Other Income	13,105	9853
	<u>273,250</u>	<u>204,904</u>
<b>Total Revenue</b>	<u><u>422,322</u></u>	<u><u>334,890</u></u>

2 Employee costs	2013-14 Kshs.000	2012-13 Kshs.000
Basic salaries and wages	103,217	86,578
Personnel allowances	88,173	75,403
Medical benefit	19,580	14,657
Social contributions	21,635	16,753
Other staff welfare	4,220	2,660
	<u>236,825</u>	<u>196,052</u>

3 Board expenses	2013-14 Kshs.000	2012-13 Kshs.000
Board Allowances	5,288	6,687
Boards Committees Conferences and Seminars	837	1,194
	<u>6,125</u>	<u>7,880</u>

4	Administrative expenses		
a)	Repairs and Maintenance	2013-14 Kshs.000	2012-13 Kshs.000
	Property	3,902	1,853
	Equipment	611	615
	Vehicles	2,133	2,969
	Other	<u>277</u>	<u>264</u>
		<u>6,923</u>	<u>5,701</u>
b)	Contracted services		
	Contracted Professional Services	6,997	8,445
	Contracted Technical Services	367	1,143
	Consultancy Fee	3,146	2,500
	Contracted Guards	<u>5,141</u>	<u>4,094</u>
		<u>15,651</u>	<u>16,182</u>
	Total Administrative expenses	<u>22,574</u>	<u>21,882</u>
5	Other operating expenses	2013-14 Kshs.000	2012-13 Kshs.000
	Goods Utilities Supplies & Services	6,004	7,324
	Investment Promotion	4,799	2,354
	Communication Supplies & Services	4,976	6,505
	Domestic Travel & Other Transport Costs	8,201	7,123
	Foreign Travel & Other Transport Costs	7,498	11,393
	Printing Advert Info Supply & Service	6,790	8,637
	Rental of Produced Assets	4,804	7,023
	Training Expenses	14,814	11,946
	Hospitality Supplies and Services	56	58
	Insurance Costs	4,847	2,544
	Specialized Materials and Supplies	3,642	2,374
	Office General Supplies	3,342	2,905

Fuel Oil & Lubricants	3,068	3,327
Legal expenses	12,772	12,018
Other operating expenses	<u>16,817</u>	<u>16,007</u>
	<u><b>102,429</b></u>	<u><b>101,538</b></u>

<b>6 Depreciation</b>	<b>2013-14 Kshs.000</b>	<b>2012-13 Kshs.000</b>
Buildings	8,237	8,173
Computers and Printers	3,744	2,435
Infrastructure	8,505	6,673
Motor Vehicles & Other Moveable Equipment	8,806	2,783
Office Equipment	1,658	(2,548)
Office Furniture	<u>1,377</u>	<u>(75)</u>
	<u><b>32,327</b></u>	<u><b>17,441</b></u>

<b>7 Gain on sale of assets</b>	<b>2013-14 Kshs.000</b>	<b>2012-13 Kshs.000</b>
Sales receipts from Disposed Assets	2,462	-
Net Book Value of Disposed Assets	<u>(700)</u>	<u>-</u>
	<u><b>1,762</b></u>	<u><b>-</b></u>

<b>8 Cash and cash equivalents</b>	<b>2013-14 Kshs.000</b>	<b>2012-13 Kshs.000</b>
Bank	40,420	14,874
Cash-on-hand and in transit	49	4
Short-term deposits	<u>256,126</u>	<u>229,196</u>
	<u><b>296,595</b></u>	<u><b>244,075</b></u>

## 9 Trade and other Receivables

a) Trade Receivables	2013-14 Kshs.000	2012-13 Kshs.000
Trade receivables	498,142	436,808
Less: impairment allowance/provisions	<u>(36,013)</u>	<u>(36,013)</u>
	<u>462,128</u>	<u>400,795</u>

Included in the Trade receivables is advance payments from Customers of Kshs.27,996,927

## b Other receivables

Staff debtors	11,401	10,776
Other staff debtors (medical)	956	1,728
Prepayments	4,510	1,264
Less: impairment allowance	<u>-</u>	<u>-</u>
	<u>16,866</u>	<u>13,768</u>

## Total Trade and Other Receivables

	<u>478,995</u>	<u>414,563</u>
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## 10 Inventories

	2013-14 Kshs.000	2012-13 Kshs.000
Inventory - Water (at Cost)	171	320
Stationary	557	755
Electrical Computer & Fire Accessories	<u>486</u>	<u>611</u>
Total inventories at the lower of cost and net realizable value	<u>1,214</u>	<u>1,686</u>

## 11. Property, Plant and Equipment

	Land	Buildings	Infrastructure	Motor Vehicles	Furniture	Computers	Office Equipment	Specialized Equipment	Work-In- Progress	To
Cost	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000	Kshs 000
At 1 July 2012	749,142	695,628	1,013,177	36,282	11,603	25,899	57,797	11,504	-	2,601,000
Additions	-	487	11,520	26,647	-	1,992	58	-	-	40,700
Disposals	-	-	-	-	-	-	-	-	-	-
Revaluation	4,676,718	171,528	(63,989)	(1,084)	1,092	6,672	(21,895)	-	-	4,769,000
Transfers/adjustments	-	9,660	-	-	-	-	11,504	(11,504)	-	9,600
<b>At 30 June 2013</b>	<b>5,425,860</b>	<b>877,303</b>	<b>960,708</b>	<b>61,845</b>	<b>12,695</b>	<b>34,563</b>	<b>47,464</b>	-	-	<b>7,420,400</b>
Additions	-	17,598	17,609	16,344	7,204	10,051	641	-	85,540	154,900
Disposals	-	-	-	(1,400)	-	-	-	-	-	(1,400)
Transfer/adjustments	-	(67,864)	(115,546)	(26,028)	(5,921)	(25,647)	(30,939)	-	-	(271,900)
<b>At 30 June 2014</b>	<b>5,425,860</b>	<b>827,037</b>	<b>862,771</b>	<b>50,760</b>	<b>13,978</b>	<b>18,967</b>	<b>17,166</b>	-	<b>85,540</b>	<b>7,302,000</b>
<b>Depreciation</b>										
At 1 July 2012	-	(67,377)	(115,546)	(27,428)	(5,921)	(25,647)	(30,938)	-	-	(272,800)
Depreciation	-	(8,173)	(6,672)	(2,783)	75	(2,436)	2,548	-	-	(17,400)
<b>At 30 June 2013</b>	<b>-</b>	<b>75,550</b>	<b>(122,218)</b>	<b>(30,211)</b>	<b>(5,846)</b>	<b>(28,083)</b>	<b>(28,390)</b>	-	-	<b>(290,200)</b>
Depreciation	-	(8,236)	(8,505)	(8,789)	(1,377)	(3,743)	(1,677)	-	-	(32,300)
Disposals	-	-	-	702	-	-	-	-	-	702
Transfer/adjustment	-	67,864	115,546	26,028	5,921	25,647	30,939	-	-	271,900
<b>At 30 June 2014</b>	<b>-</b>	<b>(15,924)</b>	<b>(15,177)</b>	<b>(12,270)</b>	<b>(1,302)</b>	<b>(6,179)</b>	<b>872</b>	-	-	<b>(49,900)</b>
<b>Net book values</b>										
<b>At 30 June 2014</b>	<b>5,425,860</b>	<b>811,113</b>	<b>847,595</b>	<b>38,491</b>	<b>12,676</b>	<b>12,788</b>	<b>18,038</b>	-	<b>85,540</b>	<b>7,252,000</b>
<b>At 30 June 2013</b>	<b>5,425,860</b>	<b>801,753</b>	<b>838,490</b>	<b>31,634</b>	<b>6,849</b>	<b>6,480</b>	<b>19,074</b>	-	-	<b>7,130,000</b>

The Property Plant and Equipment Schedule above doesn't include values of two Bore holes situated at Kitengela Township. The values will be included once valuation is carried out. The cost of the construction of Customer care office at Kitengela Township amounting Kshs.1, 104,480 is included in the Work in progress. The amount is planned for write-off since the office was demolished on a disputed land.

## 11. Property Plant and Equipment(Cont'd)

The Authority's property, plant and equipment were revalued in the year 2011, by Chapter Property Consultants Limited. Valuations were made on the basis of estimated open market value. The revaluation surplus was credited to other comprehensive income and is shown in Revaluation reserves in the statement of net assets.

As at the reporting date there were no fully depreciated assets in the Authority.

12 Biological Assets	2013-14 Kshs.000	2012-13 Kshs.000
Cost at the start of the year.	119,978	20,208
Revaluation gain	-	98,742
Additions during the year	1,219	1,028
Gains arising from changes in fair value less costs to sell	<u>27,554</u>	<u>-</u>
<b>Balance C/f as at 30th June 2014</b>	<b><u>148,750</u></b>	<b><u>119,978</u></b>

Biological assets consists of Eucalyptus plantations at the Sewerage treatment Ponds

The key assumptions made concerning the future are as follows:

- 1) The valuation is based on an estimated market price of a tree at Kshs.500 per Stem.
- 2) Size of the land is 350 acres
- 3) Estimated trees per acre is 850
- 4) Estimated number of trees is 297,500
- 5) There will be no point of sale costs like harvesting and transportation.

Additions during the year in the cost of Eucalyptus trees relates to payment to casuals Undertaking improvements in the plantation like weeding and pruning.

13 Trade and other payables	2013-14 Kshs.000	2012-13 Kshs.000
Trade Creditors	4,193	6,931
Accruals	41,835	128,752
Goods Received Note	2,831	2,454
Sundry Creditors	<u>2,240</u>	<u>1,422</u>
<b>Trade &amp; other Payables</b>	<b><u>51,099</u></b>	<b><u>139,559</u></b>
Deferred Income	145,452	5,991
<b>Total trade and other payables</b>	<b><u>196,551</u></b>	<b><u>145,550</u></b>

The carrying amounts of the above payables and accrued expenses approximate to their fair value

14 Refundable deposits from customers	2013-14 Kshs.000	2012-13 Kshs.000
Rent Deposits	39,894	40,788
Water Deposits	69,829	60,846
Sewer Deposits	2,362	2,362
<b>Total deposits</b>	<b>112,086</b>	<b>103,996</b>

15 Long term deferred Income	2013-14 Kshs.000	2012-13 Kshs.000
At start of the Year	732,223	680,641
Development Grant received during the Year	180,750	51,582
As at year end	<b>912,973</b>	<b>732,223</b>

This is deferred income from Land, Buildings and Infrastructure since the year of acquisition in (1998) from the Government. The GoK after construction of the zones handed over the same to the Authority as a grant which was Ksh.22, 177,000 for land, Ksh.98, 183,000 for building and Ksh.246, 205,000 for infrastructure. This income is to be recognised in the income statement at a rate of Ksh.4, 480,682 annually in respect to the assets and their useful life.

16 Reserves	2013-14 Kshs.000	2012-13 Kshs.000
Revaluation Reserves	<u>6,728,206</u>	<u>6,728,206</u>
Accumulated Reserves at start of the year	200,467	202,865
Current year net profit	51,986	(2,398)
Restatement of overstated accumulated surplus	<u>(24,615)</u>	<u>-</u>
Accumulated Reserves at end of the year	<u>227,838</u>	<u>200,467</u>
Total Reserves at end of year	<b><u>6,956,044</u></b>	<b><u>6,928,673</u></b>

17 Cash absorbed from operations	2013-14	2012-13
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	Shs'000	Shs'000
<b>Reconciliation of profit before income tax to cash generated from operations</b>		
Surplus before tax	51,986	(2,398)
<b>Adjustments for:</b>		
Depreciation	32,327	17,441
Foreign exchange gain	(628)	7,505
Accrued Interest Income	15,928	1,415
Grant amortization	(127,245)	(51,583)
	<b>(79,618)</b>	<b>(25,222)</b>
Gain on disposals of property plant & equipment	(1,762)	-
Changes in biological assets	(28,772)	-
<b>Changes in working capital:</b>		
Trade Receivables	(61,333)	(64,553)
Other receivables	147	43
Inventories	472	(1,613)
Trade and other payables	19,152	(8,875)
Customer Deposits	8,089	8,069
	<b>(33,474)</b>	<b>(66,929)</b>
<b>Cash absorbed from operations</b>	<b>(61,106)</b>	<b>(94,550)</b>

#### 18. Related party transactions

The Authority is controlled by the Government of Kenya. IAS 24, 'Related party disclosures' clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

##### i) Key management compensation

	2013-14 Kshs.000	2012-13 Kshs.000
Salaries and other short-term employment benefits	48,907	43,814

##### ii) Directors' remuneration

Board Allowances	5,288	6,687
Other emoluments included in employee benefits	837	1,194
<b>Total</b>	<b>6,125</b>	<b>7,880</b>

**19. Contingent Liability**

The Authority has contingent liabilities in respect of legal claims arising in the ordinary course of business.

- a) There is a dispute between the Authority and the Nairobi Water and Sewerage Company Limited regarding a six (6) kilometre water Pipeline along Mombasa Road.
- b) There is a litigation case regarding the ownership of a parcel of land Oloolokitikoshi/Kitengela/70. The case is in Law Court and the Authority has to wait for the outcome.
- c) There is un-surrendered imprests of Kshs.11, 106,000 outstanding from former employees of the Authority.
- d) Cash stolen by former employee amounting to kshs.1, 230,488 is being pursued by the Authority through the Insurance Company
- e) There are disputed telephone bills amounting to Kshs. 570,821.40. These relate to the Mombasa office line and we believe were erroneously billed. This matter relates to the year 2008
- f) There is an amount of Kshs. 18,024,637 being VAT on the incubator project. The contract entered into was exclusive of VAT but the project could be subject to VAT as the Authority is not a licensed developer

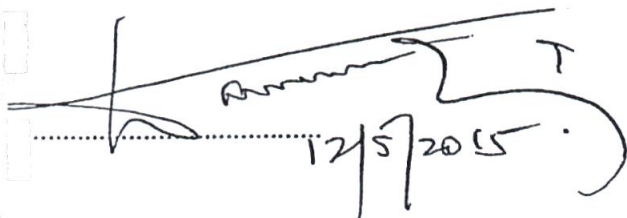
PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor in the financial year 2012-13. 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.

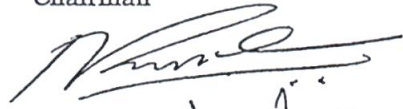
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	As disclosed under note 15 to the financial statements, property, plant and equipment balance of Kshs.7,130,140,000 as at 30 <sup>th</sup> June, 2013 includes two parcels of land Ref. L.R. No.Ololoitikoshi/Kitengela/61 and 70, measuring 2 hectares and valued at Kshs.2,250,000. Although the parcels of land were acquired through Gazette Notice Nos.2802 and 2803 of 5 <sup>th</sup> July, 1991, the Authority had not, as similarly reported in 2011/2012, obtained title documents as at 30 <sup>th</sup> June, 2013. In absence of the title documents, it has not been possible to confirm the ownership status of the land and that the balance of Kshs.7, 130,140,000 as at 30 <sup>th</sup> June, is fairly stated.	Disputes on plot LR 23961; Portion of Kajiado/Kitengela /61; and, Kajiado/Kaputei North/70. i) EPZA appreciates the gravity of the problem and it is for that reason that EPZA contacted the Kajiado District Surveyor for assistance in resolving the outstanding issues. In the report dated 8th July 2013, recommendations are that the registrar restricts the affected titles while EPZA seeks ways of resolving the existing dispute. ii) EPZA is liaising with the Kajiado District Registrar to effect the recommendations i.e. resolve the matter of encroachment, irregular subdivisions and to obtain a title for the entire portion acquired. The issues in dispute have also been referred by EPZA to the National Lands Commission for assistance in resolving this matter. EPZA has also written to the Attorney General to assist in prosecuting the matter.	CEO and GM-Utilities & Technical Services.	Not Resolved	On going
2	Included in the trade and other receivables balance of Kshs.413,299,000 as at 30 <sup>th</sup> June, 2013, is an amount of Kshs.10,536,708 which relates to advances and outstanding imprest issued to ex-staff as previously reported. The figure includes Kshs.8,690,786 issued to former	Follow-up is on course i.e. demand letters were sent to ex-staff who are repaying by Instalments. The case of former CEO was referred to EACC for further action. The CEO, Chairman and Board Audit Committee Chairman visited EACC, discussed the matter and progress at length and EACC is pursuing the	CEO and GM, Finance & Administration.	Not Resolved	On-going  The former CEO's case will be dependent

<p>Chief Executive Officer of the Authority. The former CEO disregarded the Government code of regulations (H10) on advance of salary which provides that an advance of not more than one month salary may be granted to an officer owing to circumstances beyond his/her control.</p> <p>It further provides that advance may only be granted only when an officer has no other outstanding salary advance and should not be more than two within one year. The Authority's internal management policy provides that in the absence of a written arrangement, recoveries of advance to staff should be done through the payroll which was contravened</p> <p>Further, the former CEO using the Authority's senior officers approved and authorized salary advances and other forms of advances for himself without seeking approval from the Board of Directors. This was in total disregard of Government regulations and the Authority's staff manual governing salary advances. Further, amount of Kshs.980, 919.19 granted to him as imprest should have been surrendered within 48 hours after completion of assignments for which the imprest was issued. This amounts to violation of existing regulations and abuse of office by former CEO</p>	<p>matter with the affected former staff with a view to bringing the matter to conclusion.</p>			<p>upon the EACC conclusion of the matter.</p>
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Chief Executive Officer

  
 12/5/2015

Chairman

  
 Date: 12/05/15