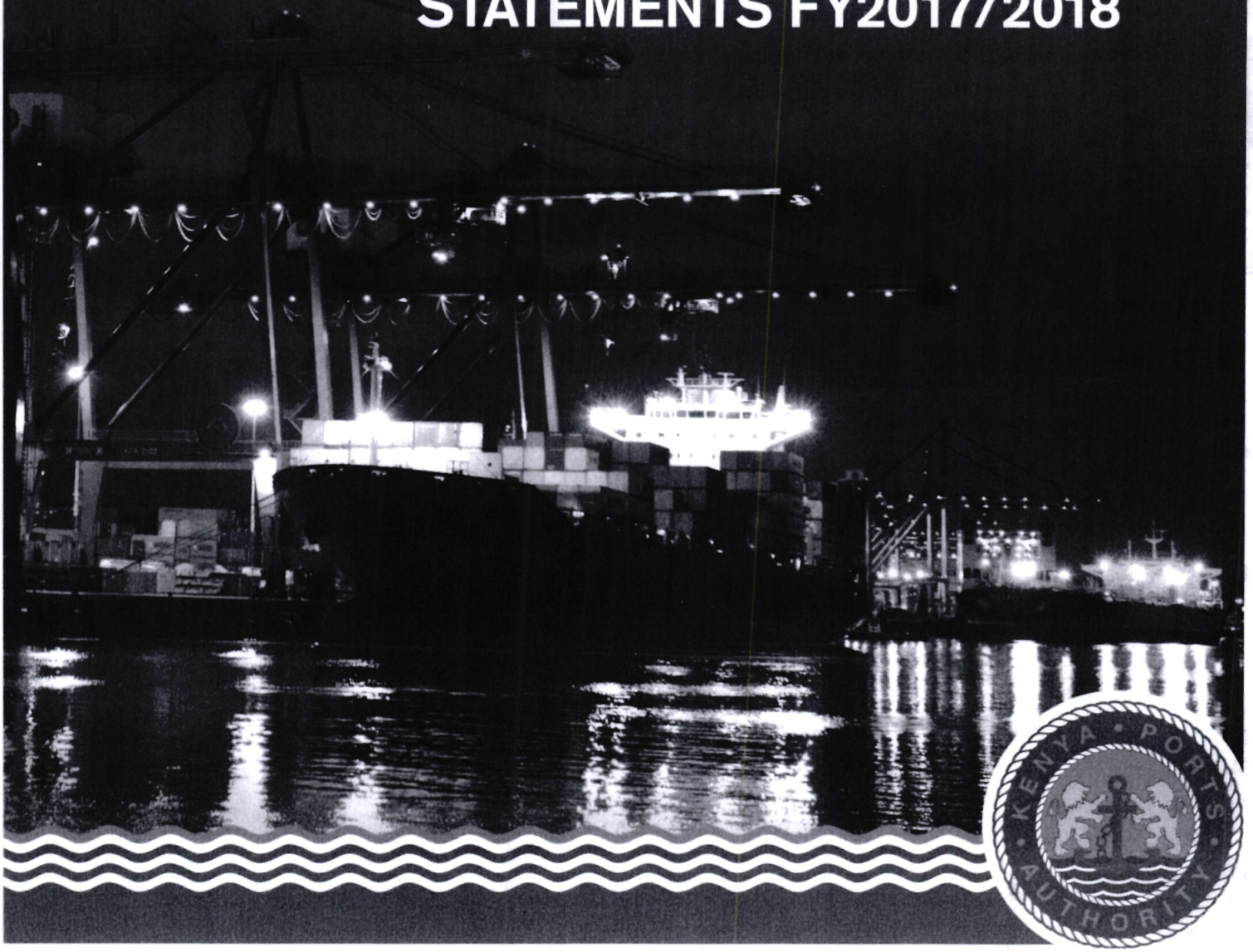
GOING BEYOND EXPECTATIONS

24/7

KENYA PORTS AUTHORITY ANNUAL REPORT & FINANCIAL STATEMENTS FY2017/2018



Performance at a Glance

7,012

Labour Force

Total Revenues of KShs.

45,358

Million

OPERATIONAL EQUIPMENT

273
Skeletal Terminal Trailers

153
Terminal Tractors

28
Reach Stackers

49
Forklifts

12
STS Gantry Cranes

7
Mobile Harbor Cranes

4
Pilot Boats

4
Mooring Boats

5
Tug Boats

VESSEL CALLS

579
Container Vessels

295
Bulk Cargo Vessels

172
General Cargo Ships

218
Tankers

151
Vehicle Carrier Vessels

7
Cruise Vessels

WE ARE READY FOR TOMORROW AS WE CELEBRATE OUR MILESTONES

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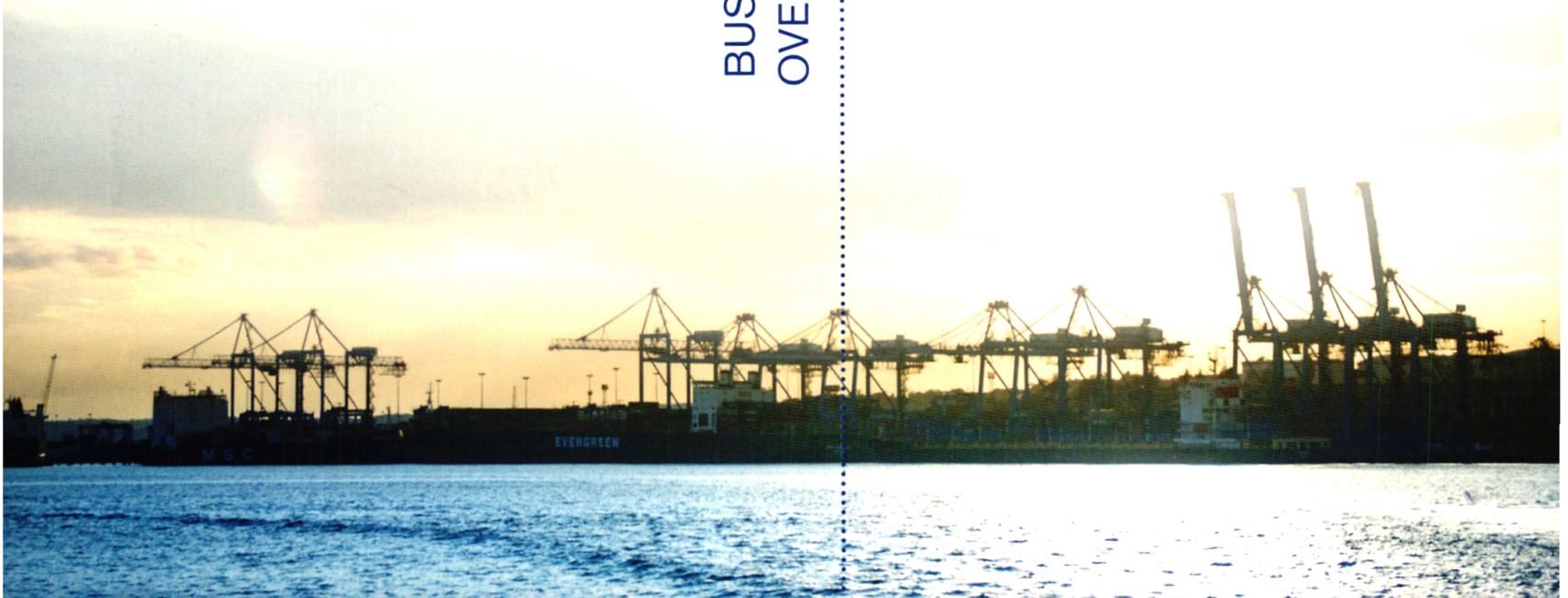

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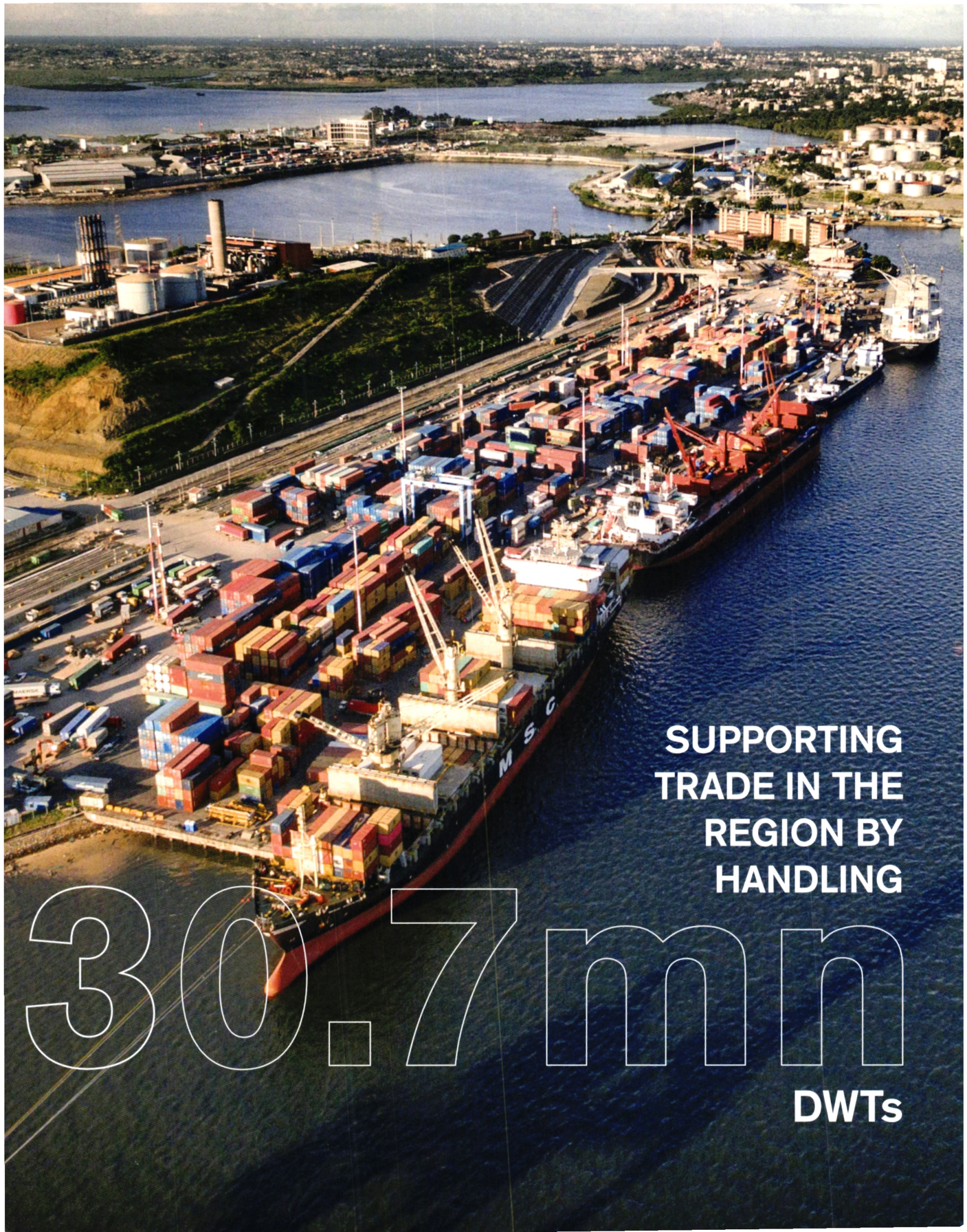
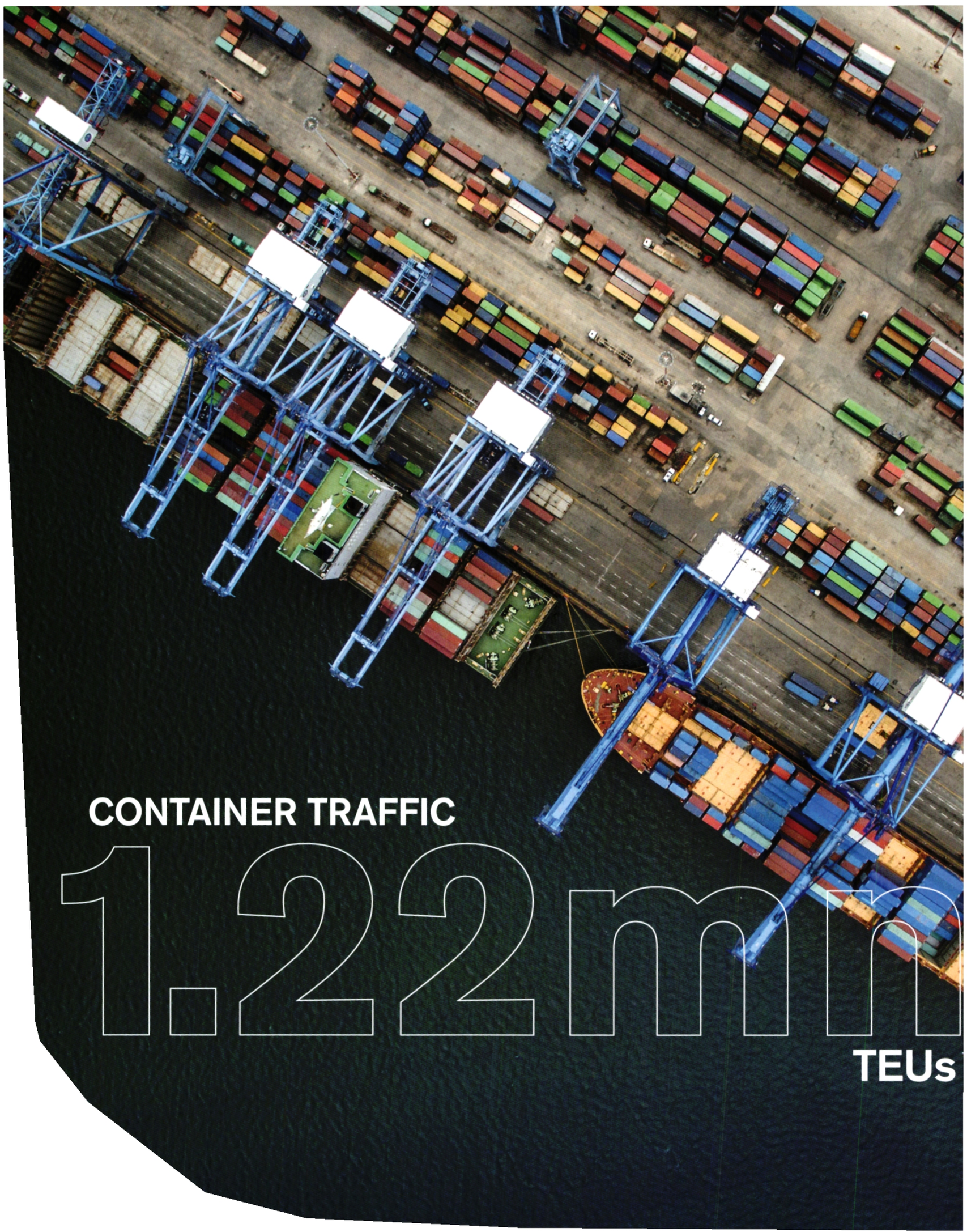
Abbreviations

AAK	Architectural Association of Kenya
CBS	Chief of Burning Spear
DB	Defined Benefit
DC	Defined Contribution
DWT	Dead Weight Tonnage
EGH	Elder of the Order of the Golden Heart
EXCOM	Executive Committee of Management
HOMS	Home Ownership Mortgage Scheme
ICDK	Inland Container Depot Kisumu
ICDN	Inland Container Depot Nairobi
IFRSs	International Financial Reporting Standards
JICA	Japan International Cooperation Agency
JPY	Japanese Yen
KMA	Kenya Maritime Authority
KOT	Kipevu Oil Terminal
KRC	Kenya Railways Cooperation
MHC	Mobile Harbor Crane
MoTIHUD	Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works
MPDP	Mombasa Port Development Project
NBV	Net Book Value
OSHA	Occupational Safety and Health Act
PPE	Property Plant & Equipment
STS	Ship to Shore
TEUs	Twenty Feet Equivalent units
TMEA	Trade Mark East Africa
WIP	Works in Progress


SUPPORTING
TRADE IN THE
REGION BY
HANDLING
30.7mn
DWTs



CONTAINER TRAFFIC

1.22mn

TEUs

1

Who we are

Vision

World Class Ports of Choice

Mission

To Provide Efficient and Competitive Port Services to Facilitate Global Trade

Establishment

Kenya Ports Authority (KPA) is a statutory body under the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works. It was established by an Act of parliament Cap 391 on 20th January 1978 with the mandate to develop, maintain, operate, improve and regulate all seaports along the coastline and inland waterways in Kenya. At the cabinet level, KPA is represented by the Cabinet Secretary in Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works. We are domiciled in Kenya with liaison offices in Uganda, Rwanda and Burundi.

Strategic Objectives

- Improve port services
- Improve customer satisfaction
- Sustain business growth
- Improve labour productivity
- Enhance risk management and environmental sustainability

Core Values

- Customer focus
- Integrity
- Team Work
- Innovation and care

Strategic Themes

The KPA Strategy is focused on 4 (four) strategic themes.

A. Operational Excellence:

This entails;

- Having well developed ICT systems that are integrated with other cargo facilitating systems to transform our ports into e-ports;
- Increasing productivity of our resources;
- Increasing and modernizing our port(s) capacity;
- Reducing operational costs,
- 24/7 service

B. Customer Service Excellence:

KPA is consistently delivering superior customer experience by;

- Enhanced effective customer relations and service programmes;
- Enhancing our regional presence, and
- Knowledgeable, collaborative, consultative relationships that meet customer expectations

C. Business Growth:

KPA is focused on;

- Increasing throughput;
- Growing market share;
- Ensure financial stability; and
- Ensuring strong partnerships.

D. Good Governance:

KPA is undertaking the following strategic approaches;

- Compliance with international standards and guidelines, and all statutory laws and regulations;
- Ensure social and environmental sustainability;
- Building a strong, competent, cohesive, engaged and multi skilled workforce;
- Promoting a performance culture that is guided by structured planning and enabling policies; accountability, transparency, responsiveness, equity, inclusiveness, effectiveness, efficiency and participation;
- Ensuring a conducive environment that promotes good work ethics, and
- Ensuring structured enterprise risk management.

PRINCIPAL ACTIVITIES

KPA's mandate is to develop, maintain, operate, improve and regulate all seaports along the coastline and inland waterways in Kenya.

Core activities include;

i. Pilotage

ii. Towage

iii. Mooring

iv. Dockage

v. Provision of navigational aids, and maintenance of the channel

vi. Stevedoring and shore handling services: cargo handling services for containers, general cargo, dry bulk and bulk liquid

vii. Reception of cruise vessels

viii. Storage of cargo awaiting onward shipment or collection by owner

Authority Information

DIRECTORS

Name		Appointments /Exists
Gen. (Rtd) Joseph. R. E. Kibwana	Chairman	Appointed on 6 June 2018
Major (Rtd) Marsden Madoka	Chairman	Left on 16 April 2018
Dr. Arch. Daniel O. Manduku	Managing Director	Appointed on 31 May 2018
Catherine Mturi-Wairi	Managing Director	Left on 30 May 2018
Henry Rotich	Director (CS National Treasury)	
Paul Kihara Kariuki	Director (Attorney General)	
Prof.Arch,Paul M. Maringa	Director (PS State Department of Transport)	
Atanas K. Maina	Director (KRC)	
Valentine Mwakamba	Director	
Peter Kid Gibendi	Director	Appointed on 6 June 2018
Mary W. Ngari	Director	Appointed on 6 June 2018
Alice M. Mwaisaka	Director	Appointed on 6 June 2018
Conrad Thorpe	Director	Appointed on 6 June 2018
Dr. Peter Njiiri Muracia	Director	Appointed on 8 June 2018
Hafswa Dele	Director	Left on 16 April 2018
Michael Maina	Director	Left on 7 June 2018
Steven L' Okedi	Director	Left on 16 April 2018
Kennedy Ogeto	Director	Left on 16 April 2018
Eng. Frederick Kirui	Director	Left on 16 April 2018
Addraya E. Dena	GM, Board & Legal Services	
Alex Mbuvi	Alternate Director to Attorney General	
Esther Koimett, CBS	Alternate Director to CS National Treasury	
Beatrice Nyamoita	Alternate Director to PS MoTIHUD	

Authority Information

REGISTERED OFFICE:

Kenya Ports Authority
Administration Block, Kipevu
P.O Box 95009-80104
Telephone:+254-41-2112999, +254-41-2113999
Mobile: +254-709092999,709093999, 730653999
Website: www.kpa.co.ke
Mombasa

CORPORATE SECRETARY

Addraya E. Dena
General Manager, Board & Legal Services
Kenya Ports Authority
Administration Block,
P.O Box 95009-80104
Mombasa

INDEPENDENT AUDITOR

Auditor General
Office of The Auditor General
Anniversary Towers, University way
P.O. Box 30084-00100
Nairobi

PRINCIPAL LEGAL ADVISER

The Attorney General
State Law office
Harambee Avenue
P.O. Box 40112-00100
Nairobi

PRINCIPAL BANKERS:

Citibank N.A
Citibank House, Nkrumah Road
P.O. Box 83615-80100
Mombasa

Equity Bank Ltd.
UTC Building, Moi Avenue
P.O. Box 84628-80100
Mombasa

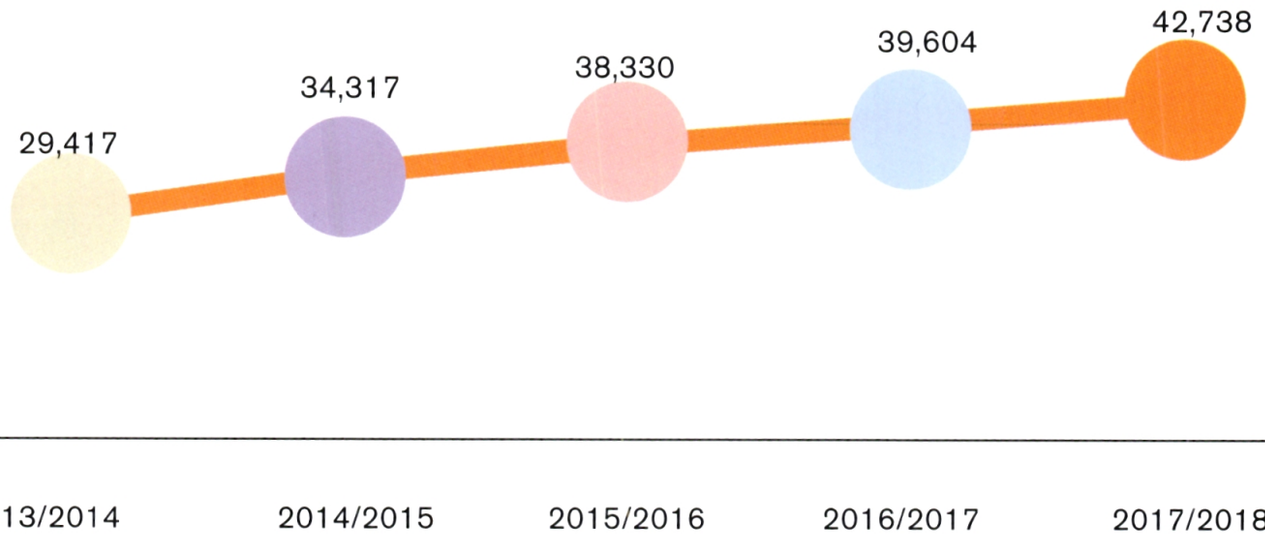
National Bank of Kenya
Portway House, Moi Avenue
P.O. Box 87770-80100
Mombasa

Kenya Commercial Bank Ltd.
Treasury Square Branch
P.O. Box 90254-80100
Mombasa

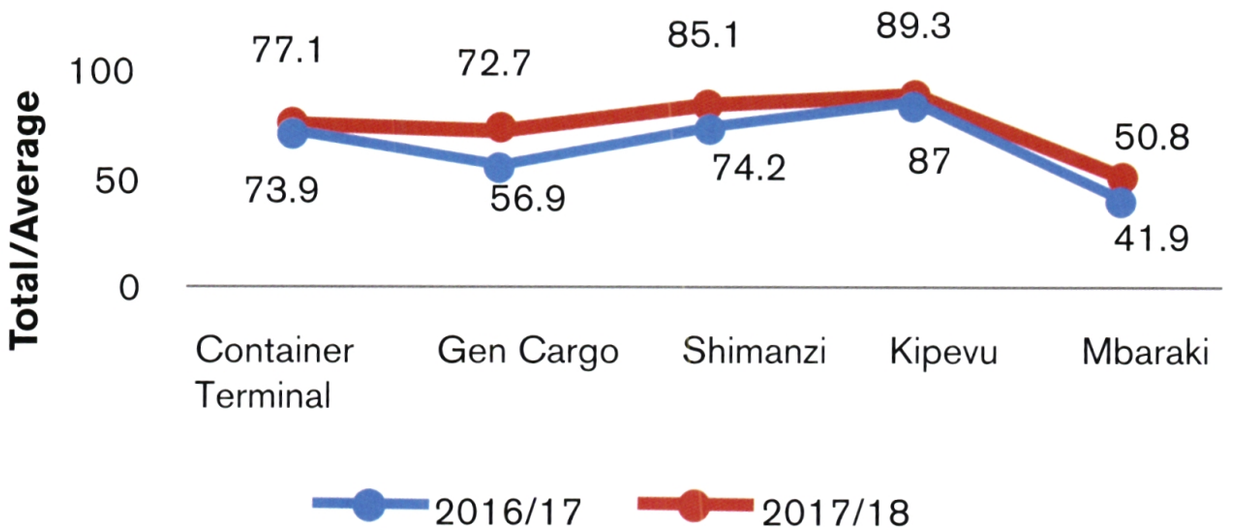
Kenya Commercial Bank Ltd.
Avenue Pierre NGENDANDUMWE
P.O. Box 6119
Bujumbura
Burundi

Stanbic Bank
Crested Towers Plot 17, Hannington Rd
P.O Box 7131
Kampala
Uganda

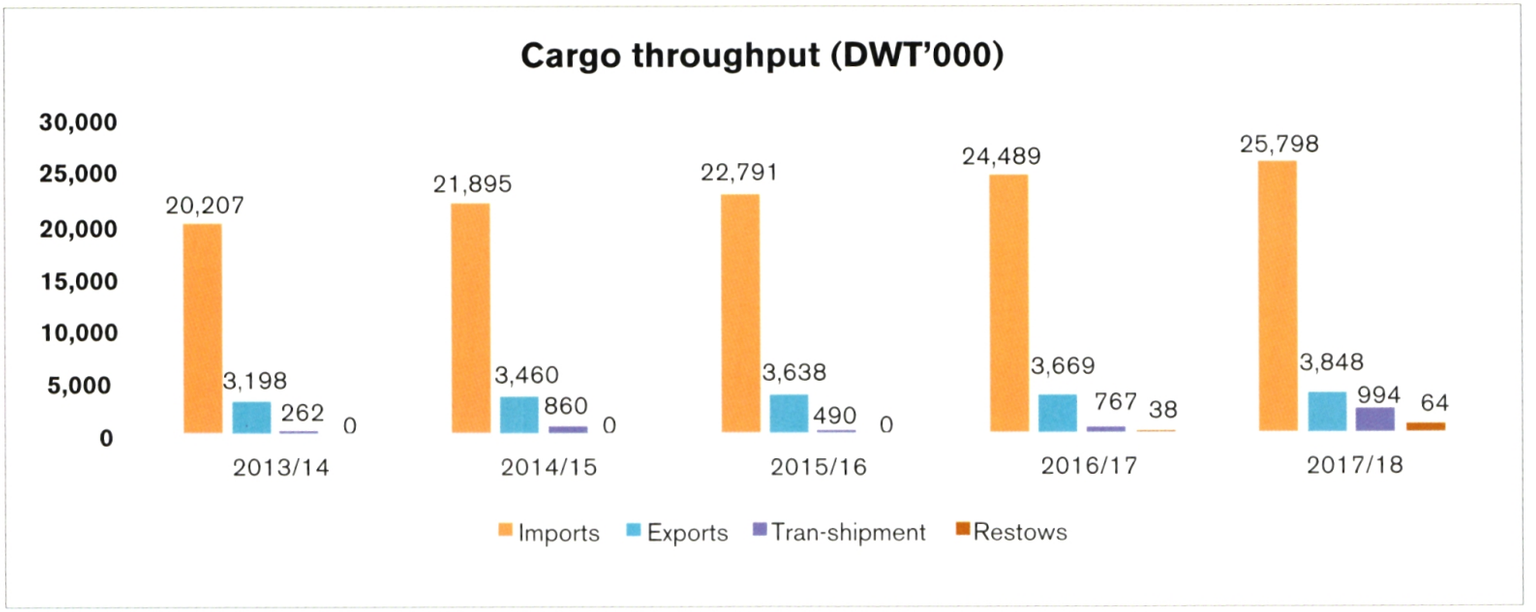
Operating Revenue (KShs M)

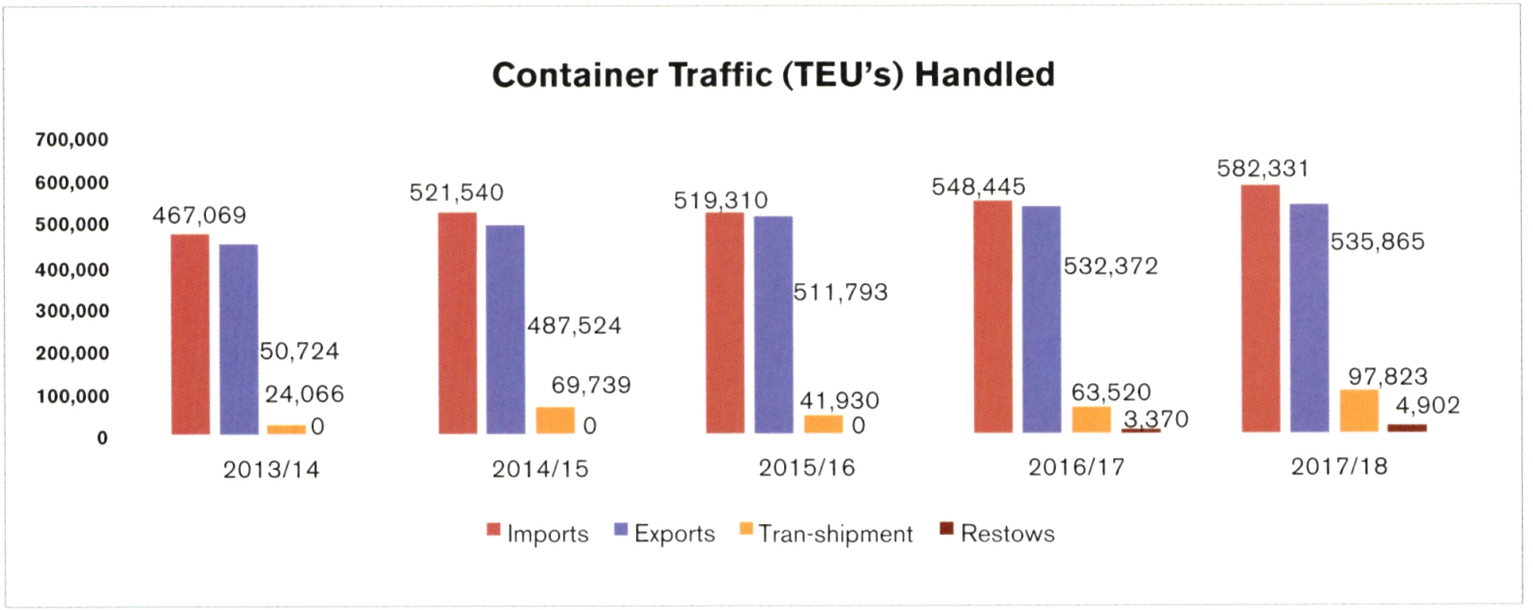


Berth Occupancy



The Year under Review



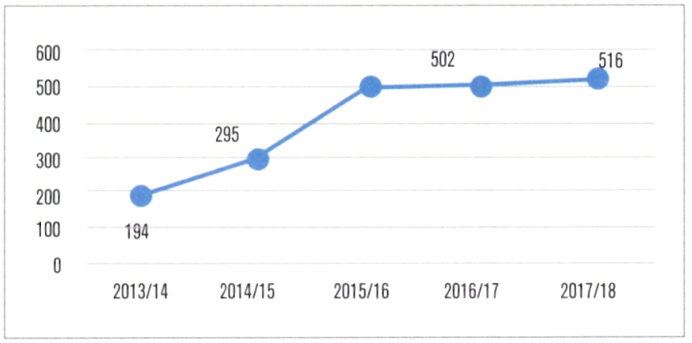


The Year under Review

STAFF

A total of 635 (management 23 & union 612) new employees were recruited during the financial year. 4,106 staff attended various courses, training, seminars and conferences as part of staff development to ensure they keep abreast with the work circumstances and changes in the business environment, technology & customer needs.

GOVERNMENT DIVIDENDS

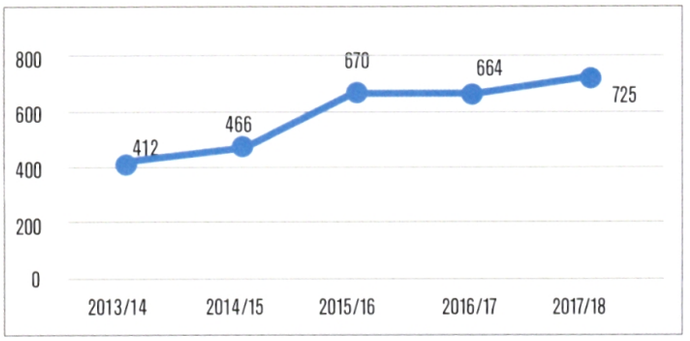


OPERATIONS

During the year, the Authority acquired 4 Nos. Eco Hoppers in partnership with TMEA valued at Kshs 628.2 million. Also acquired were operational equipment designated for ICD Nairobi operations, in tandem with SGR operations, valued at Kshs 2.4 billion.

In April 2018, the largest container vessel Mv. MSC Portugal docked at the Port of Mombasa. the vessel has a length overall (LOA) of 304.07 meters and was carrying 6,000 TEUs against cargo carrying capacity of 3,105 TEUs in hold and another 3,550 TEUs on deck.

Gross Moves Per Day



SOCIAL

KPA St. John First Aiders shared their time with the elderly and needy community at Alms House/ "Mji wa Salama" in Tudor area Mombasa. The visit was an outreach activity by the members who presented donations to the elders

AWARDS

During the year, the Port of Mombasa was declared the best transit and supply logistics Port in Eastern and Southern Africa at the African Ports Awards ceremony held in Livingston, Zambia. The Port of Mombasa which is managed by the Kenya Ports Authority (KPA) also emerged second runners up in the category of best container terminal productivity after South Africa's Port of Durban and Port of Ngqura respectively

Management Discussion and Analysis of Port performance

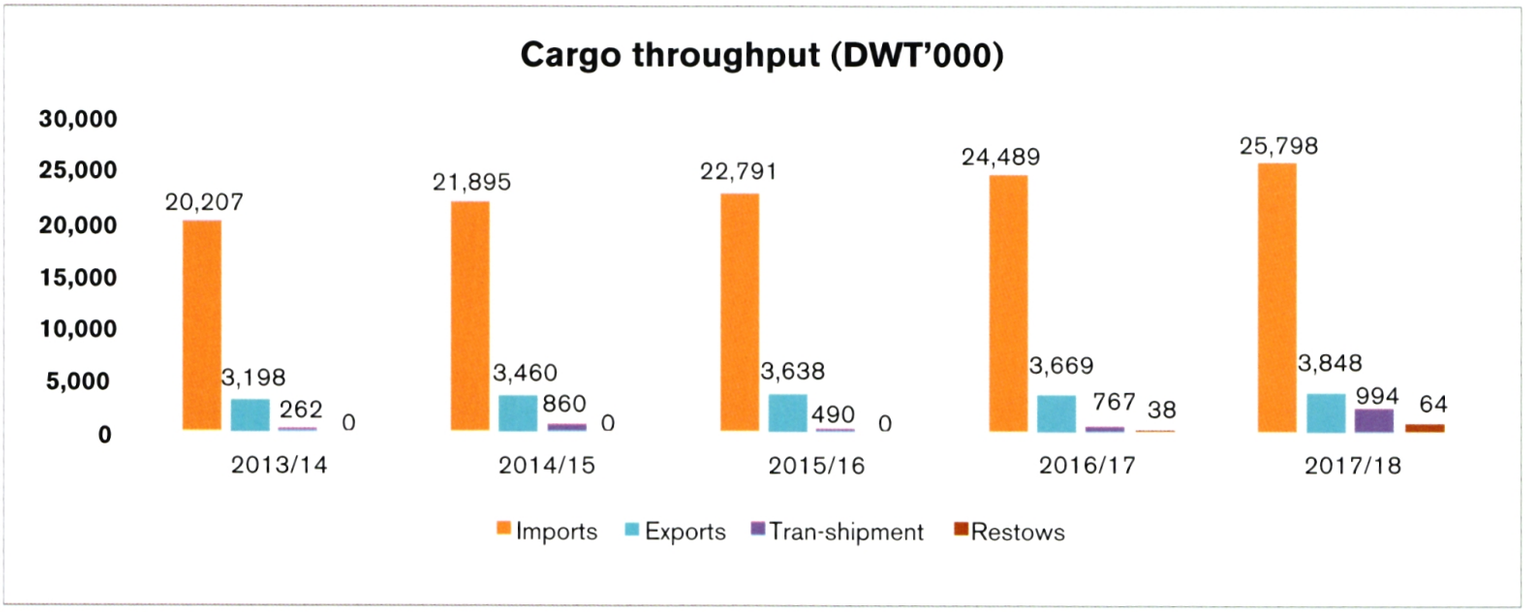
2

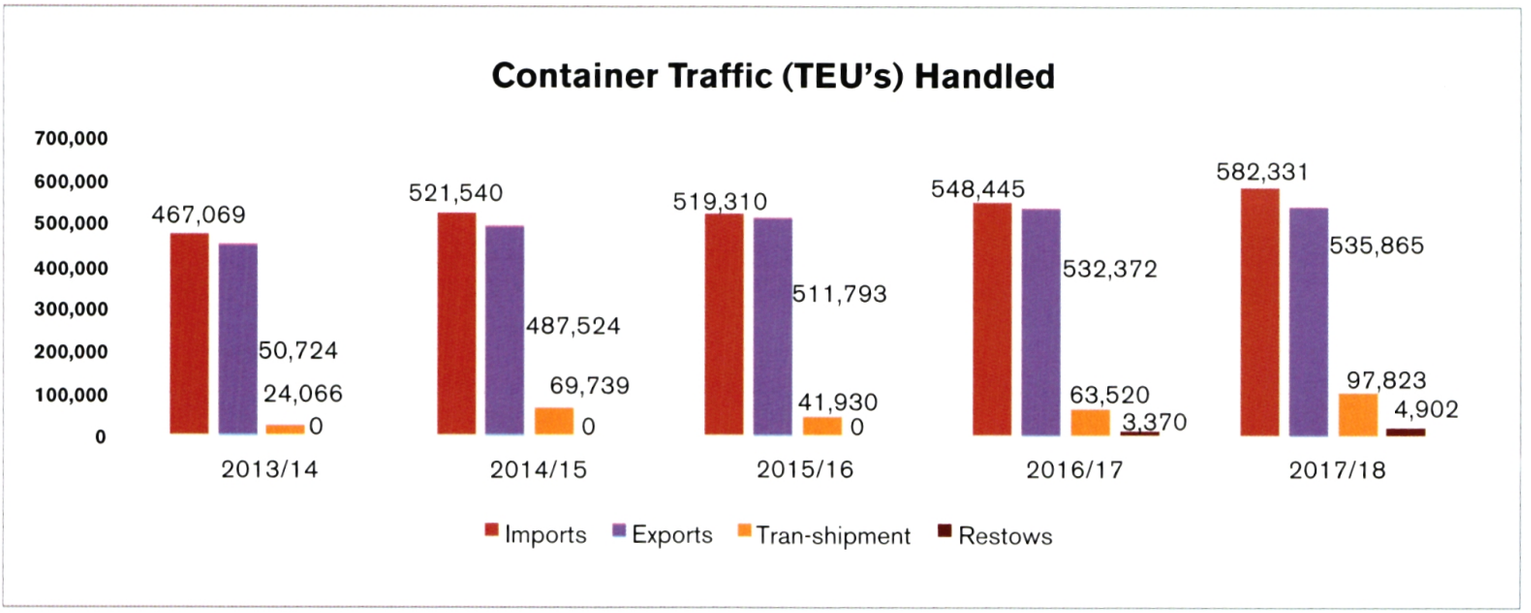
1. INTRODUCTION

The Mombasa Port has generally continued to handle improved throughput over the period registering 30.7 million tons in the FY2017/18. This is an increase of 6.0% or 1.7 million compared to a total of 28.96 million tons recorded in the previous financial year. The performance was also above budgeted throughput of 30.5 million tons by 0.6%. The good performance was attributed to an increase in volume of all commodities handled in the period under review compared to the previous year.

Containerised cargo registered 11.92 million DWTs. This was a growth of 850,742 DWTs from 11.07 million DWTs recorded in the previous year resulting into a growth rate of 7.7%.

Non-Containerised cargo registered 18.79 million DWTs compared to 17.89 million DWTs in the previous year, thus an increase of 889,332 DWTs or 5.0%. The increase was mainly on Dry bulk and liquid bulk.





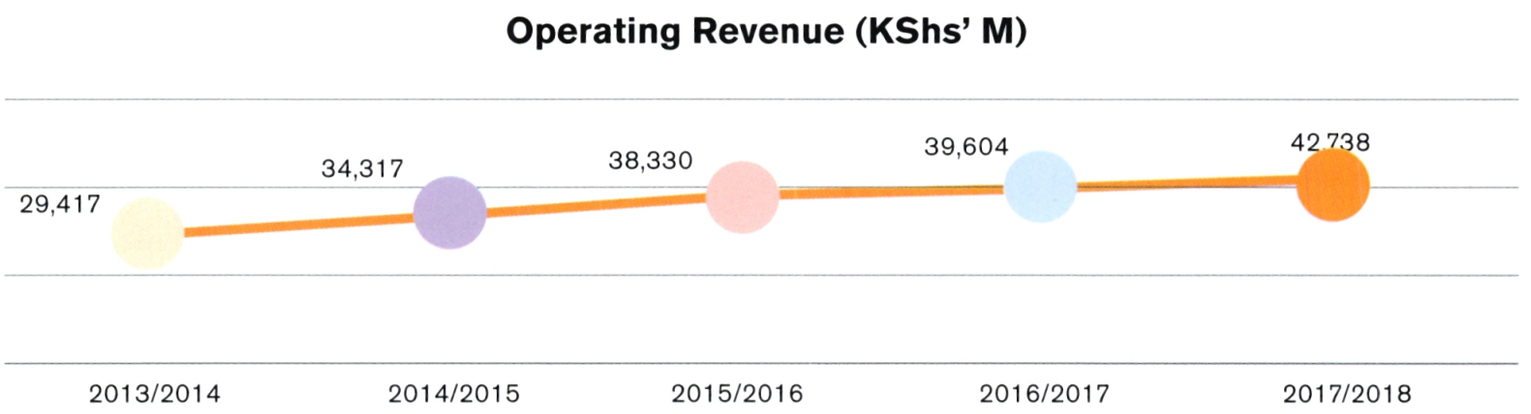
A total number of 1,696 vessels were handled in the year compared to 1,661 vessels in FY2016/17. The higher number of vessels led to an increase in marine revenue. Below is a table showing the type and number of vessels handled;

	2017/18	2016/17
Type	No. of Vessels	No. of Vessels
Barge	17	23
Bulk	295	261
Car Carrier	151	157
Container	579	534
Fishing	49	32
Gen Cargo	172	239
Passenger	7	9
Roro	41	44
Tanker	218	207
Tug	29	44
Yacht	0	1
Naval	8	11
Others	130	99
TOTAL	**1,696**	**1,661**

2. REVENUE PERFORMANCE

Total Revenue (including finance income) recorded an improvement in FY2017/18 recording Kshs 45,358 million against the previous year's figure of Kshs 41,572 million. This reflected an increase of Kshs 3,786 or 9.1%. The performance was also above the budget figure of Kshs 42,435 million by Kshs 2,923 million or 6.8% favorable variance.

Operating revenue increased to Kshs 42,738 million compared to Kshs 39,604 million registered in the prior year, generating throughput growth of Kshs 3,134 million or 7.9%. The increase in total TEUs to 1.22 million TEUs from 1.15 million TEUs in FY2016/17 and heavy dry bulk imports as a result of the maize and wheat shortage in the country all contributed to the growth.



3. EXPENDITURE PERFORMANCE OVERVIEW

Operating expenditure in the period under review increased by 10.13% to Kshs 33,798 million from Kshs 30,690 million. This was slightly above the budget figure of Kshs 33,629 million by Kshs 169 million or 0.5% variance

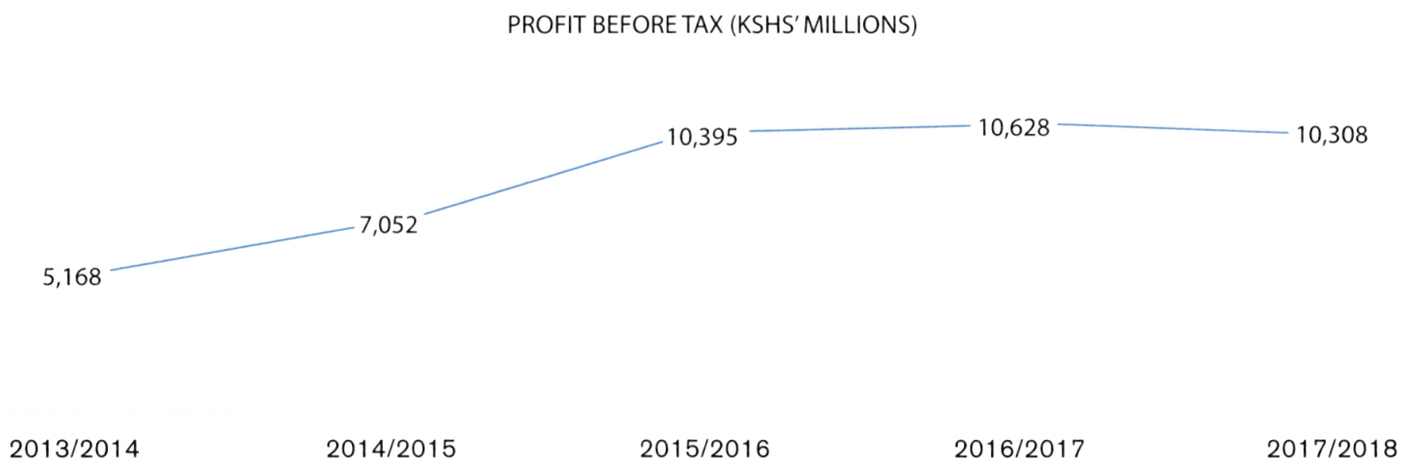
This was mainly on account of increased operational activities at the container terminal as well as ICD-Nairobi with the advent of SGR operations. Overtime costs increased by 17% to Kshs 2,688 million from Kshs 2,295 the previous year as staff continued to work overtime to meet targets including loading and offloading wagons. A total of 635 employees were also recruited in the year.

Depreciation expense increase was mainly driven by capitalization of acquired/ generated assets, mainly on equipment including the capitalisation of Mobile cranes among others.

4. OPERATING PROFIT

A net operating profit of Kshs 10,308 million was realized during the period. The profit recorded was above the budgeted profit of Kshs 8,456 million by Kshs 1,852 million. Profit recorded compares unfavourably with last year's profit of Kshs 10,628 million by Kshs (320) million, or (3.01) %. This was mainly because of increase in operating expenditure as explained above (on point 3.0) and impairment losses recognized in year.

The Authority deemed it prudent to provide for an impairment of Kshs 758 million equivalent to 25% of the deposits held in Chase Bank Ltd (In receivership). The Central Bank of Kenya had indicated that SBM Bank (Kenya) Ltd is expected to take over certain assets and liabilities while 25% of deposits was awaiting further resolution by Kenya deposits Insurance corporation (KDIC). On 6 July 2018, the CBK announced through gazette notice no. 6833 that SBM Bank (Kenya) had commenced the acquisition of certain assets and the assumption of certain liabilities of CBLR.



5 YEAR REVIEW OF STATEMENT OF PROFIT OR LOSS

	2017/2018	2016/2017	2015/2016	2014/2015	2013/2014
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Operating Revenue	42,738,520	39,603,677	38,330,411	34,317,150	29,416,696
Other Incomes	891,023	593,624	497,715	483,413	504,291
Total Revenues	**43,629,543**	**40,197,301**	**38,828,126**	**34,800,563**	**29,920,987**
Less Expenses:					
Administrative Expenses	(3,450,148)	(2,924,092)	(3,194,375)	(2,412,340)	(1,820,730)
Establishment Expenses	(17,789,138)	(16,673,130)	(16,142,193)	(15,959,087)	(14,341,753)
Other Operating Expenses	(4,899,622)	(3,593,881)	(3,600,009)	(3,270,797)	(2,467,565)
Depreciation of PPE	(7,590,886)	(7,482,804)	(6,423,577)	(6,100,239)	(6,448,331)
Amortization of Intangible assets	(67,877)	(16,252)	(193,852)	(673,149)	(523,442)
Total Operating Expenses	**(33,797,671)**	**(30,690,159)**	**(29,554,006)**	**(28,415,612)**	**(25,601,821)**
Operating Profit	**9,831,872**	**9,507,142**	**9,274,120**	**6,384,951**	**4,319,166**
Finance Income	1,728,950	1,247,301	1,711,995	896,544	892,996
Finance Cost	(170,624)	(142,237)	(501,930)	(146,293)	(104,920)
Impairment (Losses) / Gain	(1,037,395)	(111,913)	(92,652)	35,935	39,859
Other Gains/(Losses)	(44,324)	127,949	224,918	(94,050)	131,446
Profit before Tax	**10,308,479**	**10,628,242**	**10,395,178**	**7,052,106**	**5,168,105**
Tax Charge	(3,426,742)	(3,928,448)	(3,760,470)	(3,113,360)	(2,585,221)
Profit after Taxation	**6,881,737**	**6,699,794**	**6,634,708**	**3,938,746**	**2,582,884**

5. FINANCIAL POSITION

Total assets grew by 10% from Kshs 166,505 million in FY2016/2017 to Kshs 183,900 in FY2017/2018.

5.1. Non-Current Assets

Non-current assets amounted to Kshs 149,341 million up from Kshs 141,624 million in the previous FY 2016/17. The increase by 5.4% is attributed to capitalisation of on-going capital works and acquisition of new assets. Projects like the Lamu Port and 2nd Container Terminal Phase II led to the additions.

5.1.1. Long Term Investments

Included in Long Term Investments is Kshs 3,031 million held in Chase Bank. The bank is still under receivership. The Authority has had several discussions with the Chase Bank management, the receiver managers and Kenya Deposit Insurance Corporation on unlocking these funds. On 6 July 2018, the CBK announced through gazette notice no. 6833 that SBM Bank (Kenya) had commenced the acquisition of certain assets and the assumption of certain liabilities of Chase Bank Kenya in receivership, in line with the announcement of 17 April 2018. It also announced that this process would be completed on 17 August 2018. Management impaired 25% of the investment in the reporting year.

Between 27 February 2019 and 11 April 2019, cash deposits including interest earned amounting to Kshs. 1,175,061,018 previously held by the bank were remitted to the Authority. The remaining 37.5% is still held by SBM fixed deposit account at 6.30% interest rate per annum. The amount shall be released in three equal instalments between August 2019 and August 2021.

5.2. Current Assets

Current assets stood at Kshs. 34,558 million up from Kshs 24,881 million as at 30th June, 2017, an increase of 38.9%. The increase was mainly on account of growth in receivables and prepayments, and cash and cash equivalent which grew by Kshs 5,652 million and Kshs 3,155 million respectively.

5.2.1. Receivables and Prepayments

The debtors were Kshs 14,500 million as at close of the FY2017/18 compared to Kshs 8,849 million as at 30th June, 2017, an increase of 64%. The increase is mainly attributed to advances/ deposit paid on account of assets still under construction including 2 Nos. Harbor Mobile Cranes, and a Tug boat, being manufactured, for which instalments have been paid and tax recoverable among others.

5.2.2. Cash and Cash Equivalent

The cash and cash equivalents amounted to Kshs 18,777 million in FY2017/18 up from Kshs 15,621 million in FY2016/17. Cash in bank & at hand was Kshs 788 million representing 4.2% of the total balance while the short term deposits amounted to Kshs 17,989 million representing 95.8 % of the funds.

Delays in the implementation of some projects which had been earmarked for the period under review including Kipevu road construction, relocation of KOT, Security systems installations on new areas and 2nd container terminal equipment contributed to the growth

5.3. CURRENT LIABILITIES

The balance as at 30 June 2018 was Kshs 7,792 million compared to previous year's balance of Kshs 7,482 million, a growth of 4%. The growth was mainly on outstanding bills.

5.3.1. Accounts Payables

Payables were Kshs 7,001 million as at the end of the FY2017/18 compared to Kshs 6,440 million at the end of the FY2016/17. The increase by Kshs 561 million or 8.7% from the previous year was mainly on account of outstanding bills related to Lamu Port Project.

5.4. NON-CURRENT AND CURRENT BORROWINGS

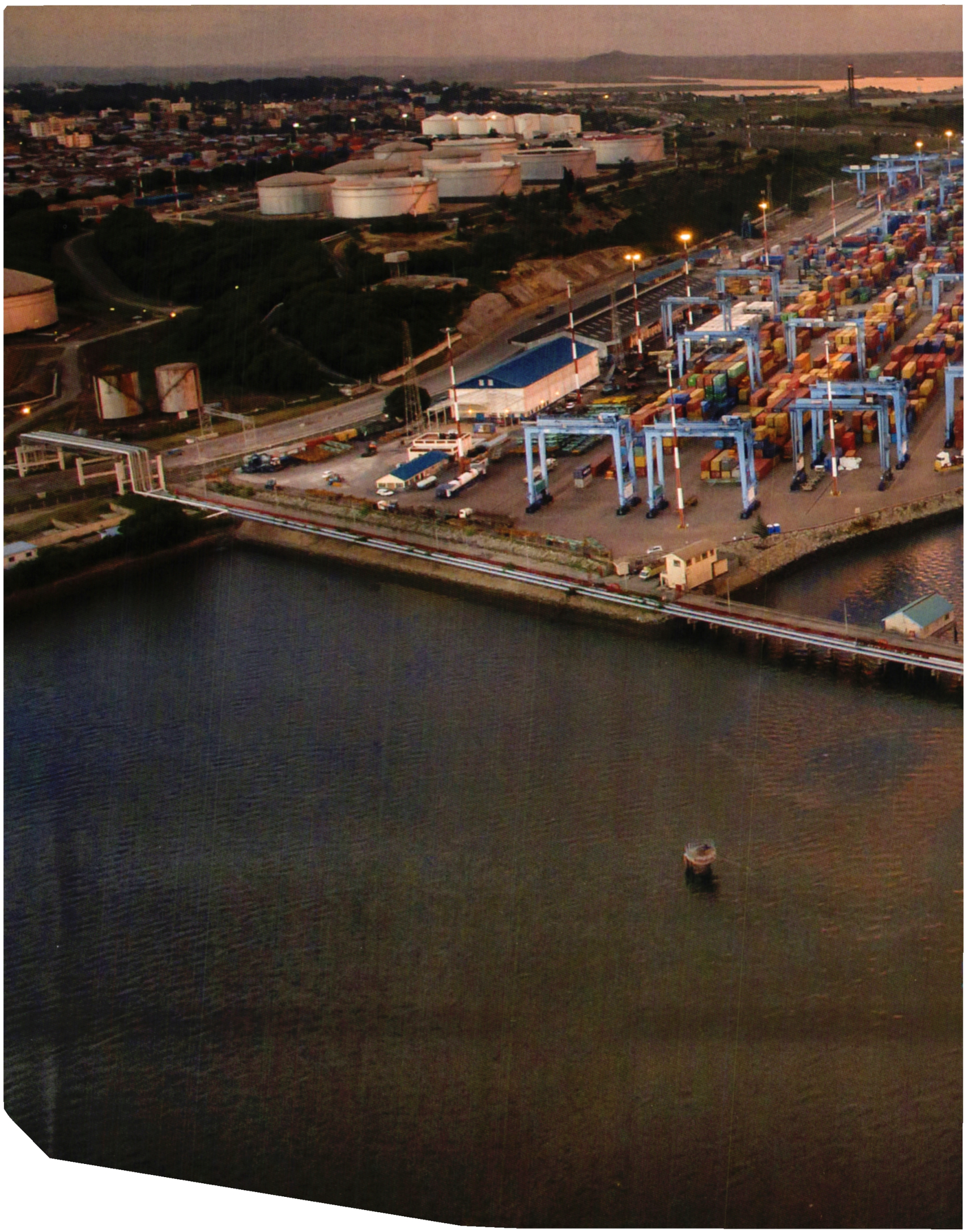
The JICA loans for the Phase I and Phase II of the Mombasa Port Development Project opened with Kshs 24,977 million in FY2016/17 and closed with Kshs 30,285 million in FY2017/18. Phase I was completed in February 2016 and the loan repayment commenced in the year. A total of Kshs 794 Million was paid and the current portion payable in FY2018/19 is Kshs 791 million. Disbursements of Kshs 6,346 Million were also received in the year for the ongoing MPDP Phase II.

5.5. RETIREMENT BENEFIT LIABILITY

At the beginning of the year under review the balances for the retirement benefit assets (Related to DB actuarial valuation) was Kshs 2,980 million. This dropped to a liability of Kshs 1,768 million at the end of the FY2017/18. The drop of Kshs 4,748 million was mainly on account of actuarial valuation conducted by Zamara Actuaries, Administrators & Consultants Ltd as at 31st December, 2017. The valuation reflected that the scheme assets were below the accrued liabilities by the said margin.

5 YEAR REVIEW OF STATEMENT OF FINANCIAL POSITION

	2017/2018 Kshs '000	2016/2017 Kshs '000	2015/2016 Kshs '000	2014/2015 Kshs '000	2013/2014 Kshs '000
Non-Current Assets:					
Property Plant and Equipment	144,614,772	133,409,067	123,242,840	108,495,047	102,949,735
Assets held for Sale	400	1,224	934	0	0
Intangible Assets	675,383	487,133	314,333	197,580	785,972
Leased Property	805,819	772,292	814,772	857,251	899,730
Long Term Investments	3,244,997	3,973,618	731,288	725,052	716,697
Retirement Benefit Asset	0	2,980,174	3,808,000	3,675,000	0
Total Non-Current Assets	**149,341,371**	**141,623,508**	**128,912,167**	**113,949,930**	**105,352,134**
Current Assets:					
Inventories	407,965	410,591	381,501	335,212	313,027
Receivables & Prepayments	14,500,357	8,848,612	7,225,670	6,324,493	4,408,826
Tax paid in advance	873,216	0	814,510	0	0
Short term deposits	17,988,504	14,928,395	12,540,442	9,237,884	10,972,612
Bank& Cash balances	788,363	693,457	599,073	814,571	684,406
Total Current Assets	**34,558,405**	**24,881,055**	**21,561,196**	**16,712,160**	**16,378,871**
TOTAL ASSETS	**183,899,776**	**166,504,563**	**150,473,363**	**130,662,090**	**121,731,005**
Capital and Reserves:					
Revaluation Reserves	39,881,910	43,296,547	48,084,237	52,525,540	58,763,932
General Reserves	78,426,542	73,813,608	61,741,226	49,353,730	34,253,139
Grants	5,044,052	581,153	106,268	121,196	428,422
Total Capital and Reserves	**123,352,504**	**117,691,308**	**109,931,731**	**102,000,466**	**93,445,493**
Non-Current Liabilities:					
GOK Project Funds	16,212,039	13,041,039	6,456,218	4,456,893	4,261,247
Borrowings	29,493,976	24,166,431	25,384,171	18,016,546	15,747,736
Deferred tax	5,281,505	4,123,829	3,032,682	1,550,537	1,135,671
Retirement Benefit obligations	1,767,500	0	0	0	1,573,327
Total Non-Current Liabilities	**52,755,020**	**41,331,299**	**34,873,071**	**24,023,976**	**22,717,981**
Current Liabilities:					
Borrowings	791,109	810,331	0	0	847,651
Trade and other Payables	7,001,143	6,439,802	5,668,561	4,552,553	4,025,910
Retirement Benefit obligations	0	0	0	0	240,000
Tax Payable	0	231,823	0	85,095	453,970
Total Current Liabilities	**7,792,252**	**7,481,956**	**5,668,561**	**4,637,648**	**5,567,531**
TOTAL CAPITAL & LIABILITIES	**183,899,776**	**166,504,563**	**150,473,363**	**130,662,090**	**121,731,005**



3

GOVERNANCE, SUSTAINABILITY & CORPORATE RESPONSIBILITY

LAYING THE FOUNDATION FOR THE LAST

40 years

Chairman's Statement

It has been a pleasure to once again chair the Kenya Ports Authority Board and I am delighted to present the Annual Report and Financial Statements for the year ended 30 June 2018.

During the year the Board including myself were appointed, we have great responsibility to ensure the port continues to grow and surpass its revenue and volume targets. It is exciting to reflect on the major developments in the port infrastructure and improvements in the port performance over the last decade including completion and operationalization of Phase I of the second container Terminal, completion of the Nairobi ICD, Lamu port first three berths development up to 50%, expansion of gates and yards, and installation of the Integrated Port Security System among others.

In terms of port performance, cargo throughput grew from 28.96 million DWTs in 2017 to 30.7 million DWTs in 2018, representing a growth of 6%. Over the last decade total throughput has grown from 14.4 million DWTs in 2006 to 30.7 million DWTs in 2018. The port capacity has grown from 1.1 million TEUs in 2013 to 2.1 million TEUs in 2018 including capacity for ICD Nairobi.

This growth has created a vibrant economy especially in the Port City of Mombasa, with trickle down effects to other towns in the country and a boom to economic activities and development. The Authority has continued to support trade facilitation, imports and exports of cargo, especially for the manufacturing sector, exports of agricultural sector commodities, and generation of foreign exchange earnings, which contributes to maintaining a favourable balance of payments position.

With this increased efficiency in the ports sector the cost of doing business has been maintained within reasonable standards. Hence contributing significantly to the Government's "Big Four" national development agenda especially in supporting manufacturing and creating employment.

On security matters, the Authority complies with the International Ships and Port Facility Security (ISPS) Code which seeks to enhance the security of ships and port facilities. The ISPS code was developed in response to the perceived threats to ships and port facilities and is part of the Safety of Life at Sea Convention (SOLAS). The Authority is focusing its security efforts on all port users in addition to the safety of cargo and has introduced several measures, including electronic surveillance equipment, controls on port entry and exit, as well as deployment of more plain-clothes and uniformed security officers on patrol in port areas.

CORPORATE SOCIAL INVESTMENT

The Authority considers CSI as an integral part of its business. The Authority cares for its staff, the communities around and is sensitive to the environment within which it operates. In order to enhance environmental conservation, the Authority adopted an elaborate Green Port Policy (GPP). Some of the programs that are underway under the GPP policy include the acquisition of four new Eco-hoppers.

The use of eco hoppers in handling dirty import cargo such as clinker, coal and gypsum is chief among KPA's initiatives in furtherance to its stated core values including care for staff and communities while being sensitive to the environment. The eco hoppers are also capable of utilizing shore power from the national grid instead of diesel engines hence eliminating environmental pollution by engine emissions

The Authority spent at least Kshs 49 million in various CSI initiatives, aimed at impacting positively on the lives of respective communities. These CSI activities were mainly focused on education services, religious initiatives, charity events and response to distress calls.

DIVIDENDS

The directors recommend a dividend payout of Kshs. 516.13 million, which is 7.5% of the profits after tax, to the National Treasury in line with the dividend policy approved by the Board of Directors.

FUTURE OUTLOOK

With the current increase in port cargo traffic, investment in port capacity is necessary. To enhance capacity, improve competitiveness and support the Government development agenda, the Authority has in the recent years focused on a combination of development strategies that will ultimately enable the Authority to cement itself as the 'Gateway to East & Central Africa'. Some of the programmed capacity expansion projects during the year under review include the second phase of the Mombasa Port Development Project (MPDP), the relocation of the KOT, rehabilitation of G-section which involves heavy-duty paving of the yard and acquisition of equipment among others. Additionally, the Authority continues to invest in human capital to ensure business continuity and efficiency.

RISK MANAGEMENT

The Board has approved a risk management strategy and is committed to a process of risk management that is aligned to the principles of best practice and corporate governance. KPA's business strategy is based on taking of calculated risks in a way that does not jeopardize the direct interests of the different stakeholders. Sound assessment of risk enables us to anticipate and respond to changes in our business environment, as well as make informed decisions under conditions of uncertainty.

In conclusion, I take this opportunity to thank my colleagues in the Board for supporting me in providing leadership. I also commend management and staff for working tirelessly to achieve the level of business growth that we witnessed. I am confident that we will continually spare no effort to attain and surpass the targets set for the new financial year. I also appreciate the Government of Kenya, the community at large and all other stakeholders for supporting and doing business with us. Together we make the economy! We are confident that we shall continually make KPA a world class ports of choice.

God bless us all.

Gen. (Rtd) Joseph. R. E. Kibwana, EGH, CBS

CHAIRMAN

THE BOARD OF DIRECTOS

The Board of Directors

Gen. (Rtd) Joseph. R. E. Kibwana, EGH, CBS (born 1947)

He was appointed Chairman of the Board of Directors of the Kenya Ports Authority in June 2018.

A career Naval officer, he rose through the ranks upto his retirement as a General in 2005. During his military service, he served as Chief of the General Staff of the Kenya Armed Forces (2000-2005); Commandant of the National Defense College (1998-2000); Commander of the Kenya Navy (1988-1998); Chief of Military Intelligence (1982-1985) among other senior appointments.

Upon retirement from the armed forces, he was appointed Chairman of the Board of Directors of Kenya Ports Authority (2005-2008). He has also served as Chairman of Kenya Trade Network Agency (KENTRADE) (2011-2014 and 2015-2018); and also as Non-Executive Director on the Boards of KCB Bank group Plc. (2012-2017); KCB Bank Burundi (2013-2015) and is currently Chairman of KCB Bank South Sudan.

He is an alumni of the Britannia Royal Naval college (UK); Farady House Engineering College (UK); the US Naval Staff College and the US Naval War College.

Prof.Arch,Paul M. Maringa, CBS, Ps MoTI (born 1959)

He holds a PhD in Environmental Planning from JKUAT, a Masters of Arts in Planning – Urban & Regional planning & a Bachelor of Architecture Degree both from the University of Nairobi. He has professional affiliations with AAK (Architects chapter) registered/ Architect, AAK (Town planning chapter) graduate member & KIP-Graduate member. An architect & planner by profession with over 30 years experience in the public service, a lecturer for many years who has written both published & unpublished research journals, working papers and supervised many research thesis & projects. Before his current position he was the PS, State Department of Public Works

Henry Rotich, EGH, Cs,National Treasury (born 1963)

He holds a Master's and a Bachelor's Degree in Economics, both from the University of Nairobi. He also holds a Master's Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University, USA.

Mr. Rotich is charged with managing Kenya's national government finances, including spearheading an efficient and sustainable public financial management under a new devolved system of governance. Prior to his elevation as a Cabinet Secretary, Mr. Rotich was the Head of Macroeconomics at the Ministry of Finance (March 2006). He also worked at the Research Department of the Central Bank of Kenya since 1994. Between 2001-2004, he was attached to the International Monetary Fund (IMF) local office in Nairobi to work as an economist.

Mr. Rotich has also served as a Director on several Boards of State Corporations, including; Industrial Development Bank, Communications Authority of Kenya amongst others.

Valentine Mwakamba
(born 1958)

He was appointed to the Board in November 2015.

He holds Diploma in Business Administration. He has commendable experience in the coffee sector having served with Coffee Marketing Board (U) Ltd in various capacities within East Africa. He's also served in the Kenya National chamber of Commerce & Industry (KNCCI) as both branch secretary-Mombasa and in charge of membership standing committee. He's also a manager of Linu Agencies (K) Ltd.

Dr. Peter Njiiri Muracia
(born 1963)

He joined the Board in June 2018.

He holds a degree in MBCHB in medicine and surgery from Nairobi university with several post-graduate trainings in and out of the country on emerging surgical and medical developments (Dubai, China, Britain, Israel)

He has worked as a medical officer at Thika hospital and Kilifi hospital.Besides practicing as a private medical Practioner at Pwani Medical Centre in Kilifi and St. Peters hospital, Malindi town.

Currently he serves as a director of Kenya National Chamber of Commerce (KNCC), Kilifi chapter, Zenith Association of Small and Medium Enterprise in Africa (ZSME) and director of Green power generation co. Ltd amongst other companies.

He is actively involved in a number of philanthropic health projects especially within Kilifi and Lamu counties.

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Conrad Thorpe
(born 1964)

He joined the Board in June 2018.

An industry leader with 15 years of experience in leading a multi-national, pan-African and Asian risk management business. He founded Salama Fikira, an enterprise risk management company in Kenya. Today the company has offices in seven countries and a presence in eight others. The Group has management certification of ISO9001, 28007, 18001 and 14001, as well as ABC certification through Trace®. It is also the only African Risk Management company with the German Police Licence. The Group operates across 80% of Africa with increased service delivery in Asia and parts of Europe. In addition to his core duties at the Board of the KPA, he is also the Chairman of the Board of a London-listed company, as well as being on the Board of a Kenya conservation Not-for-Profit. He also served in HM Royal Marines and attended the Advanced Command and Staff Course with an MA in War Studies and Defence Technology. Conrad was born in Nairobi on 7th March 1964 and is a citizen. As a youth he excelled at sport, playing rugby for the 1st XV for Kenya Schools and representing his country as the Captain of the national swimming team.

The Board of Directors Continued

Peter K. Gibendi
(born 1966)

He joined the Board in June 2018.

He has a Bachelor of Science in Industrial Chemistry from Moi University.

He joined Bamburi Cement Ltd, a subsidiary of LafargeHolcim, the biggest building materials company in the world as a Quality Manager in 1995 and helped in setting up a state of art laboratory and implementation of European Standards in Kenya and East Africa. He rose to be the Plant Manager of Mombasa Plant and Excom member of Bamburi Cement Limited in 2012. He retired from Bamburi in 2016.

He is the Managing Director of Intellectual Ventures Ltd and Technical Consultant on cement Production Operations.He values and is passionate about Integrity, Health, Safety and Environment.

Mary W. Ngari HSC, CBS
(born 1956)

She joined the Board in June 2018.

She holds a Bachelor of Arts Degree (Hons) in Political Science and Sociology from the University of Nairobi and a Master's Degree in Psychotherapy and Counseling from Daystar University. She has over 30 years of Administrative work experience in the Public Service rising through the ranks to serve as PS Ministry of Medical Services 2010-2013 & PS Ministry of State for the Development of Northern and Other Arid Lands. She has served as a Director on the boards of various State Corporations. She also previously worked at the East African Portland Cement Company as Acting MD. She holds a Presidential Commendation Award for sterling contribution towards the commemoration of 25 years of Kenya's Independence.

Alice M. Mwaisaka
(born 1980)

She joined the Board in June 2018. Currently the Head of African Green Revolution Forum (AGRF) at Alliance for a Green Revolution in Africa (AGRA). Ms. Mwaisaka holds a Bachelor's degree in Community Development and Communications from Daystar University, MBA in Global Business and Sustainability from Università Cattolica del Sacro Cuore, Milan, Italy and MSc. in Project Management from Sunderland University, UK.

Ms. Mwaisaka is a seasoned professional administration and project manager with practitioner and vast 15+ years' experience in the UN System having worked for UNESCO, IMO, UNDP and ILO. She is conversant and knowledgeable of the development landscape and UN System in Kenya as well as various national and regional projects and programmes. She has horned her skills in leading teams to the highest standards demanded. During her career she has been involved in different aspects of programme and delivered high-value projects in various organizations and across different geographies.

Before joining AGRA she was the National Project Coordinator for ILO Kenya responsible for the coordination and implementation of the Green Jobs programme.

Atanas K. Maina, LLb Hons, Dip Law, FCPSK ., ACIArb. (born 1966)

Mr. Maina is currently the Managing Director Kenya Railways. Until his appointment, Mr. Maina was the General Counsel and Group Company Secretary at UAP Holdings Limited. He is an Advocate of the High Court of Kenya and a Certified Public Secretary CPS(K). He previously worked with KR as Corporation Secretary and Head of Legal Services for seven (7) years. He was involved in the restructuring of the Kenya Railways between 2004 and 2011. Mr Maina, brings more than 20 years' experience in corporate and commercial law, corporate governance, management and administration, capital restructuring, mergers & acquisitions and, transport and logistics to the Corporation.

Dr. Arch. Daniel O. Manduku (born 1971) Managing Director

He was appointed on 31 May 2018

He holds a Doctorate Philosophy (PhD) in Business Administration and an MBA both from United States International University-Kenya and a Bachelor's Degree in Architecture from Jomo Kenyatta University of Agriculture & Technology (JKUAT). Prior to his appointment as the Ag. MD of KPA, he was the Executive Director and Registrar of Contractors at the National Construction Authority (NCA). He is a corporate member of the Architectural Association of Kenya and the Institute of Construction Project Managers of Kenya. He is the founder and manager of a private architectural & consultancy firm, Cadplan Architects Ltd and also founder of the Rwanda Architectural Association.

Addraya Dena (Ms.) (born 1970) General Manager, Board and Legal Services

She holds a Bachelor of Laws LLB (Hons) degree from the University of Nairobi and a Diploma Kenya School of Law. She is also an Advocate of the High Court of Kenya and a Certified Public Secretary Kenya CPS(K).

She is the Board Secretary and oversees the Contracts & Conveyance department, Litigation & Disputes, Ethics & Integrity including Insurance & Claims and Archives and Maritime Museum.

OUR PERFORMANCE IS SUPPORTED BY A

7,012

LABOUR FORCE

LAYING THE FOUNDATION FOR THE LAST

40 years

Managing Director's Port Review

In line with its vision, the Authority remains committed to operational excellence and quality services that exceed customer expectation

INTRODUCTION

It is with great pleasure, in my first year, that I present Annual Report and Financial Statements for the year ended 30th June, 2018 for Kenya Ports Authority on its 40th anniversary since its incorporation in 1978.

Over the years, the port has witnessed major developments in port infrastructure and improvements in port performance. The Port of Mombasa has 19 No. deep-water berths, with a total length of 3,844 meters and a dredged depth that ranges between 10 and 15 meters. This enables the port to frequently receive the longest container ship to ever dock at the facility.

The commissioning of the upgraded Inland Container Depot Embakasi in December 2017, by his Excellency the President Hon. Uhuru Kenyatta Nairobi marked another major milestone by the Authority. The upgraded facility enabled the Standard Gauge Railway (SGR) to commence services in January 2018. The port continues to increase cargo off-take by rail from the port to ICDN. The rail services started with one train in January and has steadily increased to six trains in June 2018. During the year, the Authority implemented various the programs in support of the SGR project. These include procurement of equipment, contractors, hire of labor and equipment and minor review of tariffs.

Coming from a construction background, I am appreciating that the port of Mombasa plays a key role in facilitating international seaborne trade in the region. It is indeed the primary Gateway to Eastern and Central Africa with direct connectivity to over 80 ports worldwide. It is committed to facilitate and promote the delivery of quality port related services. Indeed, our growth has been a driving force in the region's economy.

OPERATIONAL PERFORMANCE

The Port of Mombasa continues to post record cargo throughput. Total cargo throughput continues to increase year on year. It recorded 30.7 million tons in the year under review compared to 28.96 million tons last financial year an increase of about 6% or 1.74 million tons. There was a notable increase of 4.86% on Kenyan exports from last FY's 3.7 million tons as well as Trans-shipment cargo from 767,222 tons to 993,921 tons (29.5% increase). The Authority's efforts to reduce vessel waiting time and dwell time is bearing fruit. Container Terminal & General Cargo berths recorded 77% and 72% berth occupancy respectively.

The completion of phase 1 of the MPDP saw the Authority handle the largest container vessel so far dock. Mv. MSC Portugal with a length overall (LOA) of 304.07 meters is a 6,000 TEUs series container carrier. Until the completion of the dredging project to -15 metres, the port channel was restricted to vessels with a maximum draft of 11 metres. The port is now capable of handling third and fourth generation vessels with capacities ranging between 4,500 and 6,000 TEUs.

Managing Director's Port Review Continued

FINANCIAL PERFORMANCE

Total Revenues (including Finance Income) realized was Kshs 45,358 Million during the year under review compared to Kshs 41,572 Million (FY 2016/17), a growth of 9.1%. Net Assets continued to grow totaling Kshs 183,900 Million from Kshs 166,505 Million (FY 2016/17) increasing by 10% which is attributed to the ongoing capital works related to port expansion and operational equipment acquisitions.

INVESTMENTS AND STRATEGIC PLAN

A critically important issue for our business going forward is the development of a strategic plan to guide the future development of port and inland waterway in Kenya so as to manage trade growth over the next 5 years. The Authority has persistently continued to focus on high productivity and efficiency, modern infrastructure and facilitative projects that are aimed at transforming the port of Mombasa into a world class port of choice, besides the construction and promotion of other scheduled sea and lake ports. This will also assist the Authority support the "BIG FOUR" national agenda;

- Food Security;
- Affordable Housing;
- Manufacturing and
- Access to universal Healthcare.

In order to create additional handling capacity, The Authority is also relocating the Kipevu Oil Terminal to a safer location with the capacity to handle post panamax vessels. The construction of the first three berths of Lamu Port under the LAPSSET corridor is in progress and is about 50% complete; expected to be commissioned by 2020. Plans are also underway to develop Kisumu Port and other inland waterways. This will entail developing Kisumu Port into a modern commercial lake port to serve the growing regional trade in line with the EAC plan of integration.

In recognition of human capital as an important asset, the Authority continues to improve on its Labour productivity and capacity to match the status of world class ports. Negotiations of the 2018/2019 Collective Bargaining agreement were finalized towards end of the financial year and was escalated to the relevant industrial relation organs. The port is also implementing the Green Port Policy, aimed towards sound stewardship and management of the environment.

RISK MANAGEMENT

In view of the nature of work undertaken by KPA and the size of its operations, there are risks that are peculiar to the Authority's business. The risks relate to potential revenue loss, low throughput and profitability arising from negative externalities. The purpose of Risk Management is to identify such risks early before they mature and develop strategies to mitigate them. The Authority has undertaken capacity building and training on risk management for all staff, management and the Board and each department developed a risk register, which has been incorporated in the quality operating system processes and continues with periodic reviews to incorporate emerging business trends.

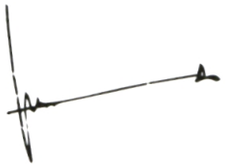
SAFETY, HEALTH AND ENVIRONMENT

Businesses are responsible for achieving good environmental practice and operating in a sustainable manner. The Authority is therefore committed to reducing environmental impact and continually improving environmental performance as an integral and fundamental part of business strategy and operating methods. It is our priority to encourage our customers, suppliers and all business associates to do the same.

Pleasingly, no fatalities were reported in the Port in the reporting financial year. To ensure safe work practices in compliance with IMO standards, the maintenance of appropriate health and safety standards remains a key responsibility of all employees, and the Authority is committed to the proactive management of health and safety risks associated with operations. Our objective is to identify, reduce and control material risks relating to fires, accidents or injuries to employees, customers and cargo.

In conclusion, the Authority continues to develop new port infrastructure, acquire and modernize its equipment, and devise innovative ideas that will improve and sustain efficiency. We continue to rely on our Human Resources to attain the targets and goals set while our commitment to the 'Big Four' national agenda, environmental management and close collaboration with key stakeholders also stands.

I thank our customers, the Board of Directors, our dedicated and talented staff for their support as well as their effort in making sure the Authority achieves its goals and objectives. I also appreciate our service providers, the national & regional Governments and all other stakeholders for their respective contributions to the Authority during the year. I look forward to continued support as we strive to transform Mombasa Port to the port of choice in East and Central Africa.



Dr. Arch. Daniel O. Manduku
MANAGING DIRECTOR

Management Team

Dr. Arch. Daniel O. Manduku
Managing Director

He holds a doctorate philosophy (PhD) in business administration and an MBA both from United States International University-Kenya and a bachelor's degree in architecture from Jomo Kenyatta University of Agriculture & Technology (JKUAT). Prior to his appointment as the MD of KPA, he was the Executive Director and Registrar of Contractors at the National Construction Authority (NCA).

He is a corporate member of the Architectural Association of Kenya and the Institute of Construction Project Managers of Kenya. He is the founder and manager of a private architectural & consultancy firm, Cadplan Architects Ltd and also founder of the Rwanda Architectural Association

CPA Patrick Wambugu Nyoike
General Manager, Finance

He holds a Masters degree in Business Administration (MBA) and a Bachelor of Commerce Degree (Accounting) both from the University of Nairobi. He is a member of the Association of Financial Analysts (AFA), a Certified Public Accountant, CPA(K) and a member of the Institute of Certified Public Accountants of Kenya (ICPAK).

He is responsible for Financial Accounting, ManagementAccounting, Commercial and Procurement and Supplies departments.

Addraya Dena (Ms.
General Manager, Board and Legal Services

She holds a Bachelor of Laws LLB (Hons) degree from the University of Nairobi and a Diploma Kenya School of Law. She is also an Advocate of the High Court of Kenya and a Certified Public Secretary Kenya CPS(K).

She is the Board Secretary and oversees the Contracts & Conveyance department, Litigation & Disputes, Ethics & Integrity including insurance & claims and Archives and Maritime Museum.

Management Team

Dr. Amani Yuda Komora (PhD.)
General Manager, Human Resources and Administration

He Holds a Doctorate of Science (PhD) degree in Human Resource Management from Jomo Kenyatta University of Agriculture & Technology (JKUAT).

He is a member of the Governing Council of the Institute of Human Resource Management (IHRM) and serves as Chairman of the College of Human Resource Management (CHRM), an affiliate of the IHRM. He also sits as a Memeber of the National General Wages Council (GWC) under the Labour Institutions Act, 2007, and also sits in the Federation of Kenya Employers (FKE) Coast Chapter Regional Committee.

His docket includes Human Resources, Employee relations, Administration and Medical services as well as Bandari College, the training arm of the Authority.

Rashid K Salim IMarEng ; IEng; MIMarEST
General Manager, Engineering Services

He is also the acting General Manager Infrastructure and Development

He holds an HND in Marine Engineering (UK) and the Chief Engineer Certificate of Competency(CoC) from South Shields Marine College(now South Tyneside College) UK.

He is a Registered Incorporated Marine Engineer and the Engineering Council(UK). He is also a Member with the Institute of Marine Engineering, Science and Technology(UK). and Mechanical Engineering.

His docket includes Marine Engineering, Terminal Engineering and Mechanical Engineering as well as Head of Inland Waters. In acting capacity he is in charge of Projects and Development, Civil Engineering and Port Electrical Engineering departments.

Captain William K. Ruto, MNI
General Manager, Operations

He holds a Master Mariner Certificate of Competency (UK), an MBA in Strategic Management from Jomo Kenyatta University of Agriculture & Technology (JKUAT) and various professional qualifications including the Global Maritime Distress and Safety System General Operator's Certificate (GMDSS GOC-UK). He is also a member of the Nautical Institute (MNI), a member of the International Harbour Master's Association (IHMA) and serves as a chairman of the Inter-Agency Committee comprising of Government Agencies working in the port and with stakeholders

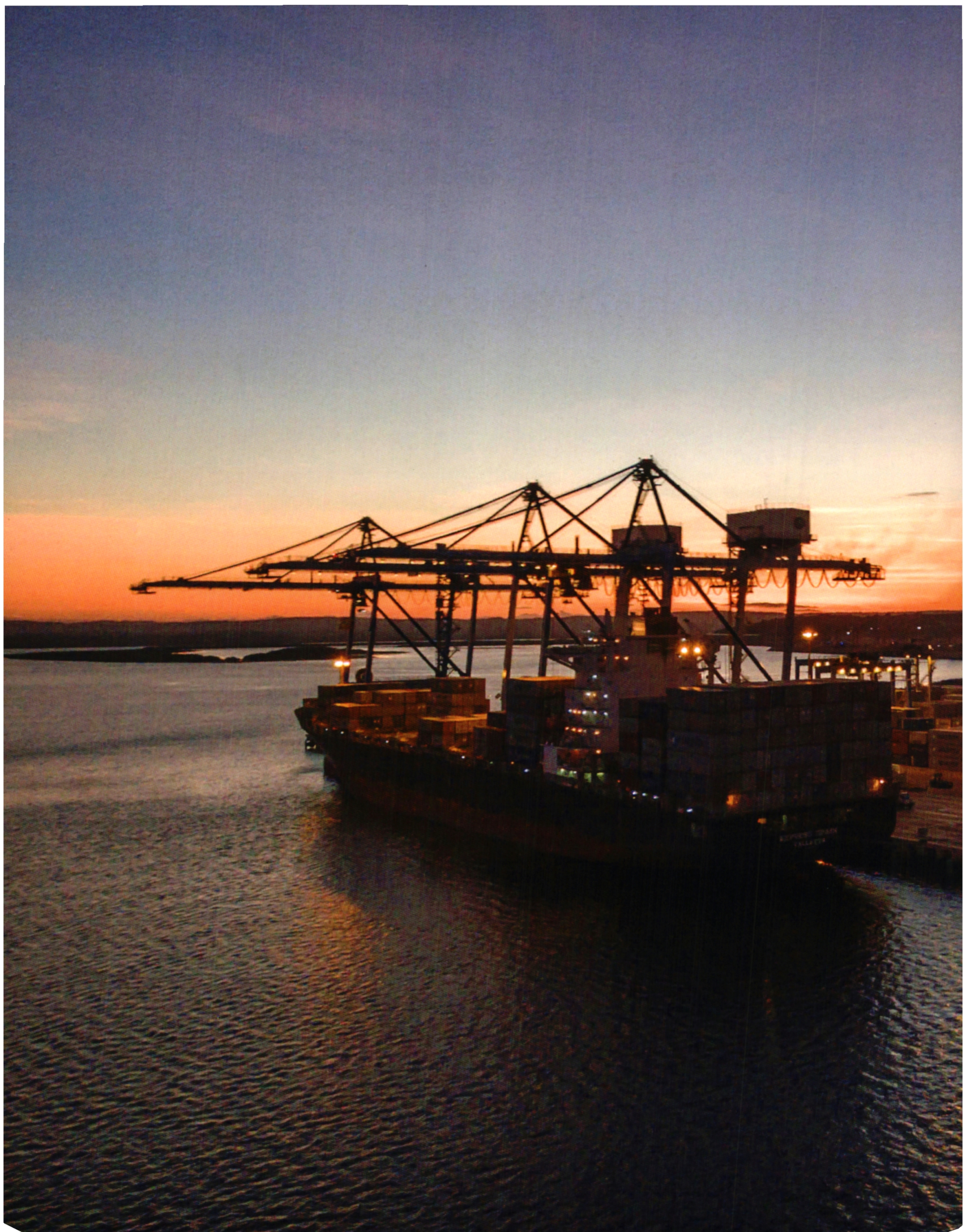
His docket includes all operations in the Conventional Cargo, Marine, Inland Container Depots and Container Terminal, Marine Operations, Logistics and Safety with a focus on overseeing development and implementation of port cargo operations, marine, logistics and Port safety policies and procedures.

Edward Kamau

General Manager, Corporate Services

He holds a Master of Business Administration and Bachelors of Commerce Degree (Marketing) both from the University of Nairobi, a postgraduate Diploma from the UK's Diageo Academy.

He is in charge of Corporate Development (Corporate Planning, Statistics & Research), Marketing (including Liaison offices of Uganda, Burundi & Rwanda) Corporate affairs (Corporate Communication, Media & CSR) and ICT



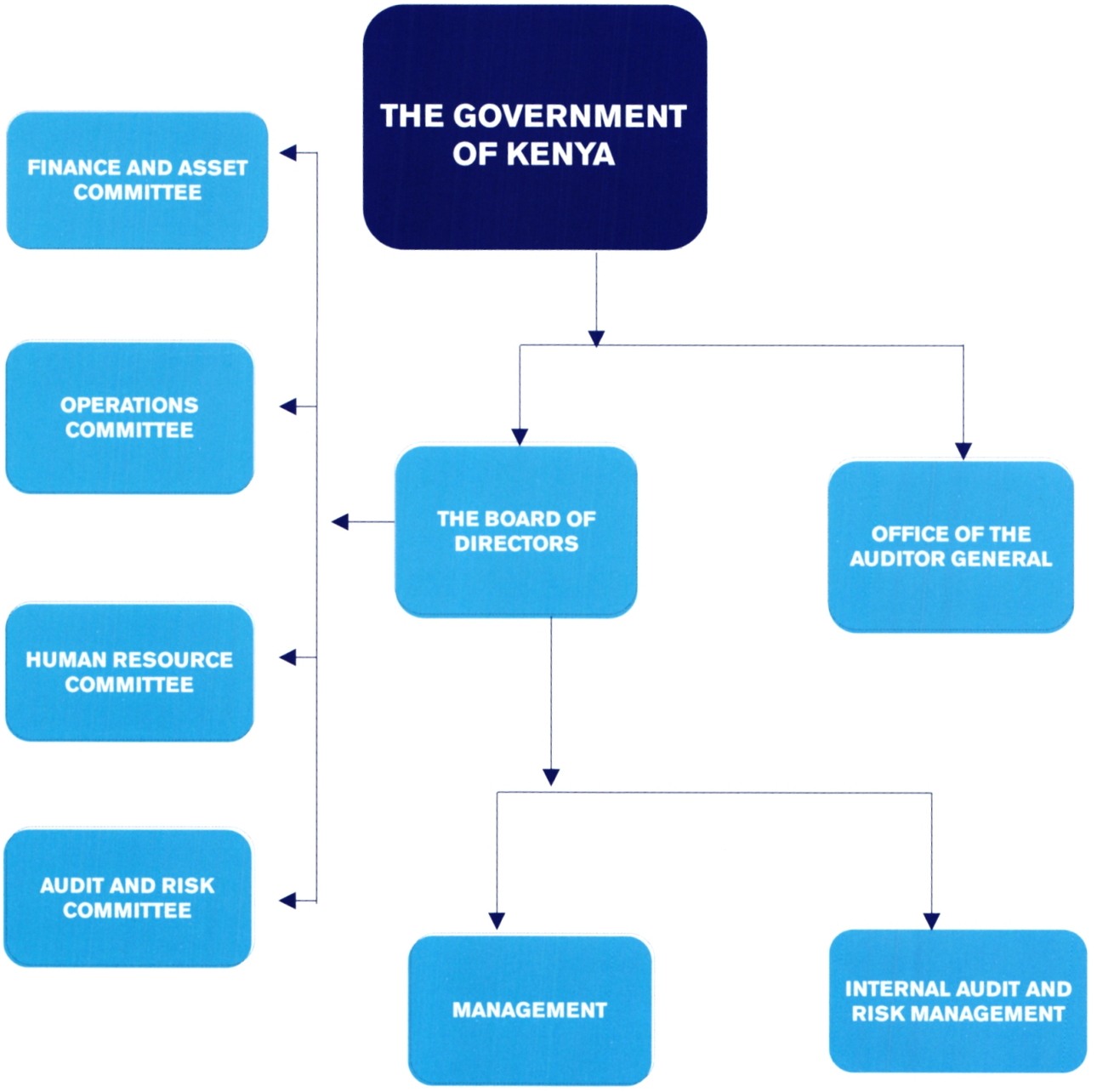
STATEMENT OF CORPORATE GOVERNANCE

Statement of Corporate Governance

The Board is committed to ensuring that the Port is run in a professional, transparent, effective, efficient and equitable manner so as to protect and enhance shareholder value and satisfy the interest of stakeholders. The principles and standards adhered to by the Board have been developed with close reference to the Mwongozo code of governance for state corporations and guidelines on corporate governance issued by the State Corporations and Advisory Committee (SCAC).

The Authority was certified ISO 9001:2008 Quality Management System (QMS) compliant in June 2009 and recertified in March 2012 and April 2015. Over the years of ISO certification, the Authority has undergone numerous surveillance and internal audits that have ascertained its continued compliance to international quality standards and enhanced service delivery and customer satisfaction. In May 2018, the Authority was certified ISO 9001:2015 Quality Management System.

Kenya Ports Authority's governance structure, by appointment is summarized in the chart below;



THE BOARD SIZE, COMPOSITION AND INDEPENDENCE

The Board consists of twelve directors out of whom seven are independent non-executive directors including the Chairman. The Board composition draws a good mix of skills, experience and proficiencies in various fields. The directors' biographies are shown on pages 20 to 23.

The non-executive Directors are independent of Management. Their role is to advise, constructively challenge and monitor the success of Management in delivering the agreed strategy within the risk appetite and control framework set by the board.

THE BOARD CHARTER

The Board's principal duty is to promote the long term success of the Port, and delivering sustainable value to the shareholder. The Board Charter defines the governance parameters within which the board exists and operates, sets out specific responsibilities of the board, its committees and directors collectively, as well as certain roles and responsibilities incumbent upon directors as individuals.

A summary of the Board responsibilities are as follows:

- Providing entrepreneurial leadership to the Port within a frame work of prudent and effective controls which allow risk to be assessed and managed.
- Strategy formulation and ensuring that there are adequate policies, systems and structures to successfully implement the Port strategy.
- Monitoring Port performance against strategic plans and objectives on a going concern basis, as well as holding mandatory quarterly meetings.
- Approval for publication of financial statements.
- Selection, appointment and appraisal of Senior Managers.
- Approve the risk management framework and ensuring that there are adequate structures and systems to identify measure and monitor key risks facing the Port.
- Reviewing the effectiveness of systems for monitoring and ensuring compliance with laws and regulations.
- Reviewing and monitoring the Port's corporate governance's policies and practices.
- Reviewing the Port Capital levels to ensure that there is adequate capital for the planned growth and expansion within the strategic cycle.
- Approval of among other things major capital expenditure, borrowings, budget, write offs, acquisition of land etc.

CHAIRMAN AND MANAGING DIRECTOR

The roles of the Chairman of the Board and the Managing Director remain distinct and separate. The Chairman gives overall leadership to the Board without limiting the principles of collective responsibility for the Board decisions. The Managing Director is responsible to the Board and takes responsibility for the effective and efficient running of the port on day-to-day basis.

BOARD REMUNERATIONS

The non–executive Board members are paid sitting allowances for every meeting attended. Director's fees are paid to non-executive Board members who are not representing any Government institution. Director's fees to Board members representing the Government and/or its institutions are paid to the Government of Kenya.

BOARD AND STRATEGY MEETINGS

The Board and its committees meet regularly in accordance with business requirements. All directors participate in discussing strategy, performance, financial and risk management of the Port. Meetings of the board are structured to allow sufficient time for consideration of the matters to be discussed.

The board work plan together with the calendar of meeting for 2017/2018 were fixed in advance and provided to all the directors. Adequate notice was given for each meeting and the agenda and supporting papers were distributed in advance to all the board and committee members to allow time for appropriate review.

The Board has ownership over the Authority's strategic direction. It regularly reviews reports on progress toward the target of the approved business plan, progress against financial objectives and business development. The chairpersons of board committees report at each meeting of the board on the activities of the committee since the previous Board meeting. The board receives regular reports from the Managing Director on the maritime trade environment, strategy, business development and financial performance of the port.

The Board gets regular reports on the port risk appetite profile, top and emerging risk, risk management, liquidity, litigations, compliance and any emerging issues. Members of the executive management are regularly invited to attend board and committee meetings as required to make presentations that give directors an insight into specific technical business areas.

BOARD MEETINGS HELD FY 2017/2018

In compliance to the Mwongozo Code the Board of Directors dedicated adequate time and met as required in order to effectively provide the required entrepreneurial leadership. During the year 2017/2018 the Authority had twelve (12) regular Board meetings and two (2) Strategic Board meetings with several meetings of the Committees of the Board. The attendances to the meetings is as indicated below;

		Full Board/Special		Strategy Meetings		Finance & Asset		Operations		Audit & Risk		Human Resource	
Director Name	Designation	No. of Meetings	No. of Meetings attended	No. of Meetings	No. of Meetings attended	No. of Meetings	No. of Meetings attended	No. of Meetings	No. of Meetings attended	No. of Meetings	No. of Meetings attended	No. of Meetings	No. of Meetings attended
Marsden Madoka	C	12	12	1	1								
Joseph R E Kibwana	C	1	1										
Catherine Wairi	MD	13	13	1	1	3	3	4	4			5	5
Michael Maina	D	13	12	1	1	3	3					5	5
Atanas Maina	D(KRC)	14	4	1	0								
Hafswa Dele	D	12	12	1	1					3	3	5	5
Fred Kirui	D	12	12	1	1			4	4				
Steven L'Okedi	D	12	12	1	1					3	2	5	5
Alex Mbuvi	D	14	11	1	1			4	2			5	5
Esther Koimett	AD(NT)	14	9	1	0	3	1			3	1		
Beatrice Nyamoita	AD(MoTIHUD)	14	12	1	1	3	2	4	4	3	2	5	5
Kennedy Ogeto	D	12	5			3	0	4	3				
Valentine Mwakamba	D	14	14	1	1			4	3	3	3		
Conrad Thorpe	D	1	1										
Peter Gibendi	D	1	1										
Mary Ngari	D	1	1										
Alice Mwaisaka													

ALL DIRECTORS ARE NON-EXECUTIVE DIRECTORS

C	Chairman
MD	Managing Director
AD (NT)	Alternate Director to the PS the National Treasury
AD (MoTIHUD)	Alternate Director to the PS Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works.
D (KRC)	Director representing Kenya Railways Corporation
D	Director

DIRECTORS' EXTERNAL ACTIVITIES AND CONFLICT OF INTEREST

Directors have a statutory duty to avoid situations in which they have interests which may conflict with the interests of the Authority.

BOARD STRUCTURE

The Board operates under a comprehensive structure made up of committees established to assist in discharging its responsibilities and obligations. These committees assist the board in carrying out its functions and ensuring that there is independent oversight of internal controls and risk management.

The Board has determined the purpose and the number of committees required to support it in carrying out its duties and responsibilities and in guiding Management. These committees have been established with specific terms of reference, which are continually reviewed and updated. The appointment of members to these committees draws on the skills and experience of individual directors. The role played by board committees forms the principal point of contact between the Directors and Management.

The board committees are namely; Finance and Assets, Audit and Risk, Human Resources and Operations.

All the committees have at least four non- executive directors as members. The chair of the committees must be a non- executive director. The chairman does not sit in any of the committees.

At every meeting of the full board the chair of each committee presents a report on its activities, decisions and recommendations of their respective committees since the date of the previous meeting for further consideration and approval where necessary.

DETAILS OF THE COMMITTEES ARE GIVEN BELOW:

- **Finance and Assets Committee**

The core functions of the Finance and Asset Committee is to ensure that the undertakings of the Authority are operated efficiently, according to sound commercial principles in accordance with Part V and VI of the Kenya Ports Authority Act 1978

Director	Meetings Held	Meetings Attended	% Attendance
Catherine Wairi	3	3	100%
Michael Maina	3	3	100%
Esther Koimett	3	1	33%
Beatrice Nyamoita	3	2	67%
Kennedy Ogeto	3	0	0%

• Strategy & Operations Committee

The Committee focuses on ensuring that productivity is maintained according to international standards. It also identifies obstacles that may hamper smooth operations and formulates policies on improvement of port performance.

Director	Meetings Held	Meetings Attended	% Attendance
Catherine Wairi	4	4	100%
Kennedy Ogeto	4	3	75%
Eng. Fredrick Kirui	4	4	100%
Alex Mbuvi	4	2	50%
Beatrice Nyamoita	4	4	100%
Valentine Mwakamba	4	3	75%

• Human Resources Committee

The committee reviews the Human Resources policies and procedures and ensures that they support the strategy of the Authority. It ensures that the Authority maintains a policy of providing remuneration packages that fairly reward staff for their contribution to the business, whilst considering the need to attract, retain and motivate staff of the highest caliber. The committee also ensures successions plans are in place for senior managers of the Authority.

Director	Meetings Held	Meetings Attended	% Attendance
Catherine Wairi	5	5	100%
Steven Okedi	5	5	100%
Hafswa Dele	5	5	100%
Michael Maina	5	5	100%
Alex Mbuvi	5	5	100%
Beatrice Nyamoita	5	5	100%

• Audit and Risk Committee

The committee plays a vital role in ensuring the integrity of financial statements prior to their review and approval by the board. To this end, the committee reviews the accounting policies financial reporting and regulatory compliance of the Authority. The committee also continually evaluates the effectiveness of risk management programs.

AUDIT AND RISK COMMITTEE (CONT'D)

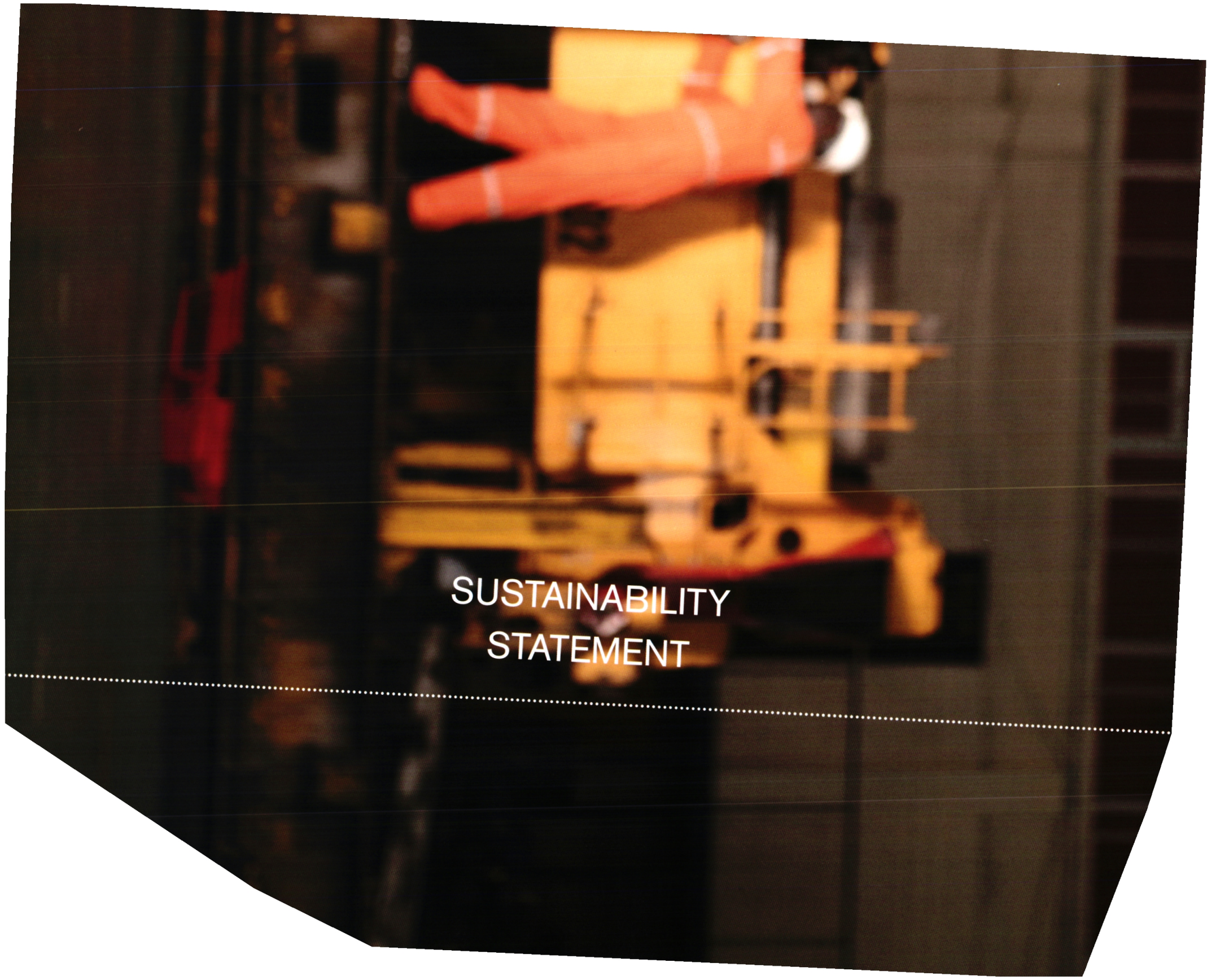
The committee receives reports of the Internal and External Auditors and management's corrective response to the findings. The committee also reviews the overall scope, annual plans for the internal audit function's activities and oversees the alignment of risk management programs and internal audit activities. The committee reviews all key internal audit reports and has regular direct access to the Head of Internal Audit and Risk Management.

Director	Meetings Held	Meetings Attended	% Attendance
Steven Okedi	3	2	67%
Hafswa Dele	3	3	100%
Esther Koimett	3	1	33%
Beatrice Nyamoita	3	2	67%
Valentine Mwakamba	3	3	100%
Beatrice Nyamoita	5	5	100%

MANAGEMENT COMMITTEES

A significant factor in the Authority's success is the strength of the Management team. Members of the Management team bring together vital leadership skills and extensive maritime trade experience from both local and international exposure. To harness their strength, the Managing Director has established the Executive Management Committee (EXCOM). This committee meets regularly and at least monthly to discuss strategy formulation and implementation, policy matters and financial performance.

It is also responsible for ensuring compliance with the regulatory frame work and guidelines and adherence to the Authority's policies and procedures. The committee also serves as the link between the board and management. The Managing Director has also established other standing committees to execute various mandates and to support the EXCOM in realization of its objectives. Some of the committees include Information Technology Steering Committee, Port Productivity Committee, Change Management Committee, Corporate Training committee, Tariff Committee among others.


SUSTAINABILITY
STATEMENT

Sustainability Statement

The Authority is a going concern and the Board of Directors will continue, in accordance to the Triple Bottom Line Concept, to ensure that it shall continue to meet its financial, social and environmental obligations for long-term sustainability.

Mwongozo code stipulates, as part of sustainability goals & strategy, that the Board should;

i. Integrate sustainability into the organization's strategy and management practices

ii. Focus on the future sustainability of the organization

iii. Adopt a holistic approach to economic, social and environmental issues in their core business strategy

iv. Take into account in their decision making, the impact of their organization's operations on the community and the environment

v. Work closely with management to ensure long-term goals are well formulated and subsequently met

vi. Focus on long-term talent development

vii. Ensure continuous innovation of its processes, products and services

ENVIRONMENT & HEALTH AND SAFETY

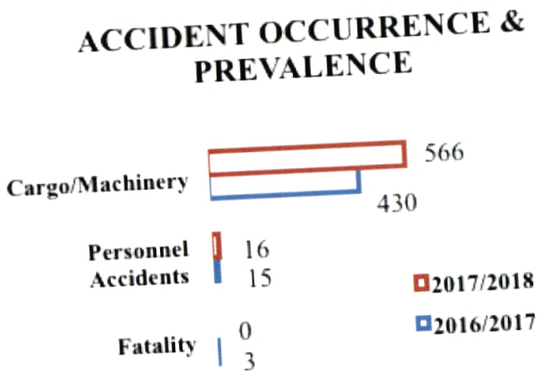
The Authority has in place an Occupational Health and Safety policy which is a commitment to ensure provision of a healthy and safe workplace. The policy is in line with OSH Act 2007 and includes compliance with other statutory international OSH regulations. The Authority has in place a Management System which provides a framework for management of safety programs to comply with law and create a good safety culture in the organization.

Programs in place in compliance with the national Laws include;

1. Registration of the workplace (done annually)
2. Workplace Inspections and Audits; Internal Audits done internal and External Audits done by External Auditors registered with DOSS (Statutory) annually
3. Accident reporting and investigations. Any serious accident is reported to the County Director of the Occupational Health and Safety Services (DOSS). The incidents are registered in the General Register L.D form 2006.
4. Risk assessment is carried out to all our processes to identify hazards and mitigation measures.
5. Training and control measures, induction, sensitization, awareness for new/old employees, port users and visitors is done.
6. Health surveillance- pre- employment, Periodic (annually) and post-employment in conformity with legal notice no. 24 medical examination rules (2005).
7. Formation of safety committees is done in conformity with legal notice no. 31 safety committee rules (2004).
8. Provision of First Aid services and training of first aiders in conformity with legal notice no. 160 first aid rules.
9. Provision of Personal Protective Equipment/Clothing.
10. Examination of plant and machinery.

ACCIDENT OCCURRENCE & PREVALENCE

The Authority recorded an increase of 29.91% in total accidents that occurred at the Port area from 448 (FY 2016/17) to 582 FY 2017/18. Of these accidents reported, 2.75% (16) involved personal accidents and 97.25% (566) involved cargo/machinery. No fatalities were reported. The Authority is committed to reducing the number of accidents occurring within its port area by instituting programs highlighted earlier in compliance to national laws.



SAFETY WEEK

This year's safety week ran from May 2018. The 4-day campaign was themed "Safety starts with me, Nitawajibika!" The emphasis was on staff and port users taking responsibility for their safety. It was also a call for commitment to be accountable for their safety in their day to day activities. It was achieved by urging staff and all other port users to observe rules and regulations in place, observe Safe work practices, report all unsafe acts and conditions, create safety awareness at the workplace and foster good working relationship & ensure use of PPEs as appropriate.

EMPLOYEE ASSISTED PROGRAM HEALTH WEEK (EAP)

This is program targets employees and port users to help them stay healthy and productive. The Authority conducts the EAP health weeks on a quarterly basis and mainly targets employees, dependents and port users. Services provided included blood pressure measurement, random blood sugar, BMI, PSA, breast cancer, cervical cancer, hepatitis B & C, Fundoscopy, Bone Density exercise to rule out conditions like osteopenia and osteoporosis & dietary advice. The Authority recognizes that a healthy workforce is the pillar of high productivity and thus this exercise targets employees to help them stay healthy and productive. EAP is undertaken by the medical department in line with the Authority vision, mission, and core values to achieve the quality objectives. A total of 8,068 people were attended to during the year in this initiative.

KPA'S COMMITMENT TO PROTECTING AND CONSERVING THE ENVIRONMENT THROUGH GREEN PORT INITIATIVES

Port activities have significant environmental impacts that can negatively affect operations if not mitigated against. KPA is in the forefront of enhancing environmental stewardship and sustainability in compliance with national and international laws, in cognizance of the fact that a clean environment is key to any business operations.

During the year, KPA complied with gazette notice 2334 banning the use, manufacture and importation of plastics bags in Kenya.

The Authority manages the marine and terrestrial environment in accordance with the IMO Convention for the Prevention of Pollution from Ships (MARPOL 73/78) and Environmental Management and Coordination Act (EMCA 1999). The above is achieved through the implementation of Mombasa Port Resilient Infrastructure Program (MRIP), under the Green/Eco-Port Policy.

Benefits to the Authority through the prioritization of the subsequent environmental programs:

i. Reduction of air pollution caused by Green House Gases (GHG) and their corresponding effects through the establishment of carbon sinkers which has been actualized by planting and maintenance of 7000 trees in 6 counties,

ii. Enhancement of air quality, reduction of particulate matter/ inhalable particles through the use of eco-hopper (if utilized),

iii. Efficient energy use and conservation through the use of modern operational machines,

iv. Promoting Port environment through the implementation of environmental monitoring and management programs for each project undertaken by the Authority,

v. Control soil erosion, landslide and marine pollution by surface runoff through the Eco-face terracing,

vi. Harvesting of rain water through the removal and replacement of asbestos roofing sheets.

STAKEHOLDER ENGAGEMENT

The Authority engaged stakeholders in several forums as part of business collaborations geared towards sustainability. Stakeholders' engagement is very important in the business world for growth and resolving challenges and finding permanent solutions to make the port efficient. One such forum was held in Kampala Uganda. Traders in Uganda have realized increased growth in their businesses following initiatives implemented by KPA that reduce time taken by cargo between arrivals in Mombasa and transportation to Kampala. Stakeholders' engagement is very important in the business world for growth. The Authority adopts an inter-agency approach where it closely collaborates with all cargo interveners to proactively find solutions to emerging issues. In Mombasa, the Port Stakeholders 2nd Think Tank Forum and Annual Review of the Port Community Charter was aimed at enhancing coordination amongst cargo interveners, improving productivity and efficiency at the Port of Mombasa and along the Northern Corridor, reducing cost and increasing ease of doing business and reviewing the Port Charter. In September the Authority also held a stakeholders Forum at Radisson Blu Nairobi.

STAFF, VALUES & PROCESSES

The Authority continues to invest in its human capital (HC) considering they are a primary asset. Our performance and ranking gets better as a result of our HC productivity and input in daily business processes. We continually improve and uphold organization culture and traditions that add value to our HC and spur continued productivity. In the ended FY, a total of 4,106 staff attended various courses, training, seminars and conferences as part of staff development to ensure they keep abreast with the work circumstances and changes in the business environment, technology & customer needs.

We continually improve and uphold organization culture, and traditions that add value to our HC and spur continued productivity. One area is through the Interdepartmental games which are held annually. We engage in various disciplines involving all the cadres of employees and grades where staff mingle and interact freely not considering ranks, grades or otherwise.

WAJIBIKA

Wajibika is a strategic corporate scorecard and transformation plan aimed at enhancing service delivery and performance at the port of Mombasa. It is anchored on four major pillars; customer focus, customer excellence, business growth and governance, which if properly utilized, are set to increase both the input and output at the port.

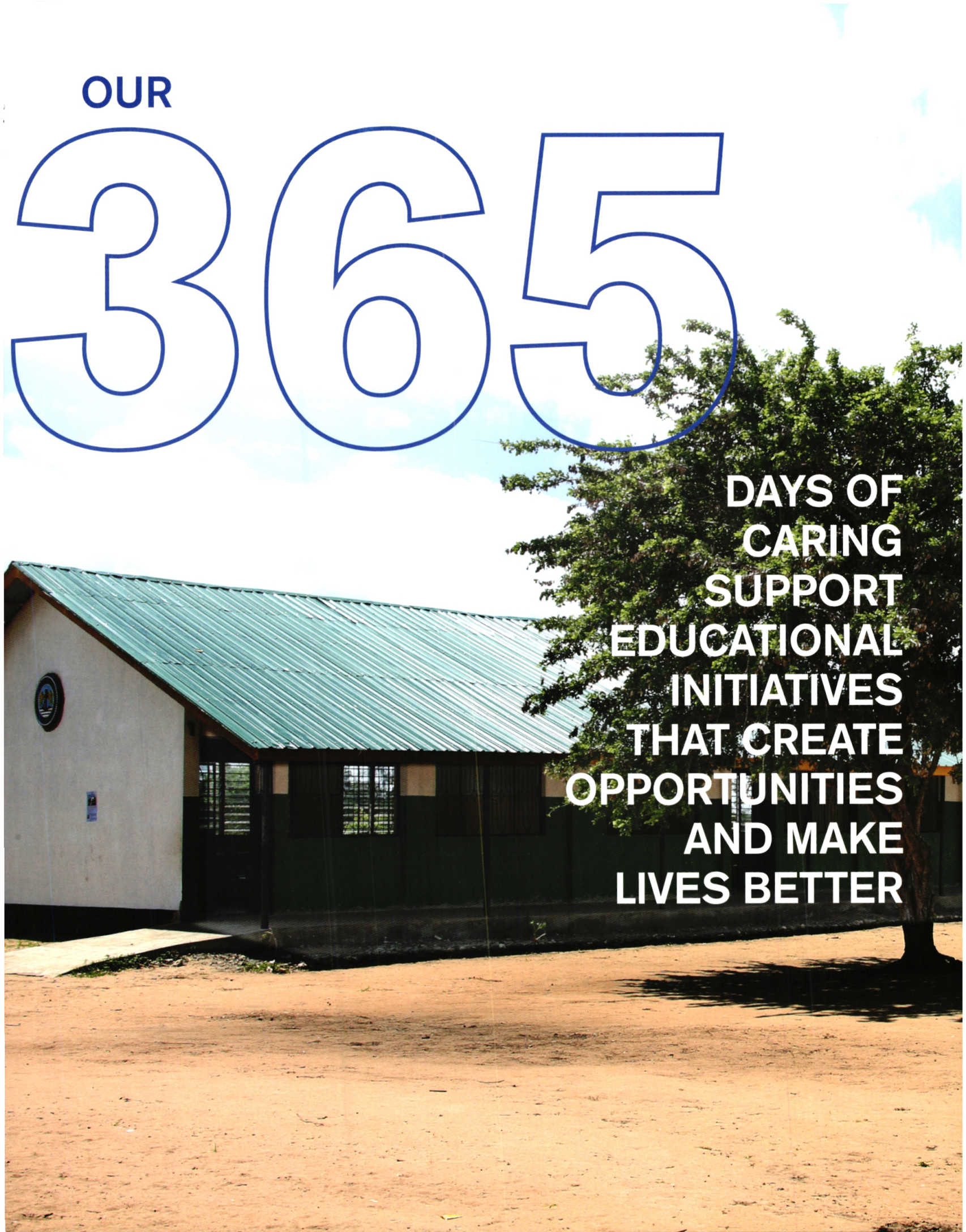
The balanced scorecard is an organizational transformation system, which will present the opportunity for the port to take stock of collective changes including port services, technology and new policies required to meet new competitive challenges, regulations, governance direction, economic, world realities and societal development. The system cultivates good attitudes among the workforce, install transparency, responsibility and accountability to ensure silo mentality is eliminated and instead improve work relationships.

In relation to performance management, management staff were guided on review of scorecards. Divisional, Departmental, Sectional and individual scorecards for management staff were reviewed to reflect the initiatives/activities/tasks to be executed as cascaded by a higher level scorecard and in pursuit of the achievement of the Strategic objectives as contained in the Strategic Plan. Mid-year performance appraisal is carried out to assess progress on achievement of the goals as captured in the performance plans (scorecards) to be followed by the end year review.

OUR

365

DAYS OF CARING SUPPORT EDUCATIONAL INITIATIVES THAT CREATE OPPORTUNITIES AND MAKE LIVES BETTER



Corporate Social Investment

The Authority is committed to uplifting the standards of living of the communities within the Coastal region and other areas it operates in. It is the single largest employer within the Coastal area and thus the need to invest in various community projects in each county. Its CSI policy is rooted in the organization's values, guided by International standards and best practices. The Authority's CSI program is focused on creating and maintaining a strong bind with the community and its stakeholders. To this end, the Authority's CSI initiatives provide communities with opportunities for engagement in health, education, sports, youth empowerment and environmental restoration.

The Authority sponsored a medical camp in Kamtonga in Mwatate, Taita Taveta County as part of its initiative to support and give back to the community. 36 medical personnel from the Authority together with 46 from the County Government were on site to attend to patients. The free medical camp attracted nearly 400 people.

The services offered included among others; VCT, cervical screening/ breast cancer screening, laboratory services, triage services, nutrition screening and provision of drugs.

The Authority also sponsored two medical camps in Kilifi County. One was held in Malanga whereby the Authority in partnership with an NGO, Crossroads Fellowship, sponsored the provision of medical drugs. The other was held by the Surgical Society of Kenya in their 15th free surgical camp, the only medical camp in Kenya offering free surgeries to the poor. The Authority sponsored the provisions of anesthetic drugs for the course.

Some interior areas within the Coast region lack proper education

Corporate Social Investment

facilities. There is continual need to invest in such regions to ensure conducive learning environment for students. Students from Mikhani Secondary School in Kilifi County & Gozani Primary school in Kwale County have reasons to smile. The former will benefit from an upgraded boarding facility while the latter will benefit from four classrooms.

The Authority also extended its CSI to Uganda through its Liaison office. Kampala Children Welfare School received donations consisting of wheelchairs, mattresses, sanitary towels amongst others presented by GMs Mr. Edward Kamau (Corporate Services) and Captain William Ruto (Operations and Harbor Master) on behalf of KPA.

SPORTS

In sports, the Authority sponsored the annual Madoka marathon which took place at Ngerenyi farmers training Centre in Taita Taveta County in October 2017. The 12th edition event which is sanctioned by Athletics Kenya saw over 3000 athletes and locals taking part in the annual race for both men and women. Winners of the 21km race for both men and women took home Kshs 500,000. The event aimed at tapping raw talent locally.

The Authority continues to sponsor teams in basketball (men & women) and soccer. KPA's management also provides and maintains sporting facilities at the Bandari College, Mbaraki and Makupa Welfare Center which also offer training opportunities for players' competence while encouraging healthy lifestyles. For many years the Authority has been supporting and promoting various sporting activities because sports remains a very important component of the Authority's CSI which the community needs to feel part of.

Regionally, KPA women's basketball team were once again the undisputed Champions for FIBA Africa Zone V games held in Lugogo Kampala as their male counterparts came in third.

Nationally, the KPA Men and Women Basketball made history as they achieved a rare feat by winning the double of the National Classic Basketball League title. Kenya Ports Authority are Kenya Basketball Federation (KBF) Premier League title holders.

Youth Empowerment

Swahili Pot hub had a need for more space because of the small capacity within the building. During rainy seasons the amphitheater is not usable. Its mission is to empower the community through creative innovation by creating favorable environment for the youth to innovate through Arts and Technology, build sustainable solutions that enhance transformation in the community and provide a space where peer to peer training is conducted and partnerships are drawn. The Authority sponsored the repairs of the facility to a tune of Kshs 5.3 million.

Relief Drive

More than 61,720 people were affected by floods in Tana River County as a result of the heavy rainfalls experienced early in the year. Farmlands were submerged in water, livestock drowned and property destroyed. Resulting from a request to assist the victims by the County Commissioner, the Authority donated foodstuff to the flood victims affected.

Environment & Landscaping

The Authority also continues to maintain and landscape the Uhuru gardens in Mombasa County collaborating with the County government in beautifying Mombasa which is a major tourist site in the world map considering Moi Avenue is where the large monumental elephant tasks are situated.

The Authority spent Kshs 10.6 million towards compensating Matuga fishermen as a result of effects of dredging which affected the fish population in that locality. Matuga residents depended on fishing as one source of livelihood.

Report of the Directors

The Board of Directors has the pleasure to submit the annual report and audited financial statements for the year ended 30 June 2018 in accordance with the International Financial Reporting Standards and the Public Finance Management (PFM) Act, 2012 which discloses the state of affairs of the Authority.

PRINCIPAL ACTIVITIES

KPA's mandate is to develop, maintain, operate, improve and regulate all scheduled seaports along Kenya's coastline. Core activities include pilotage, towage, mooring, dry docking, navigational aids, and maintenance of the channel, stevedoring and shore handling and reception of cruise vessels in accordance with KPA Act CAP 391.

RESULTS FOR THE YEAR

	2017/2018	2016/2017
	Kshs '000	**Kshs '000**
Profit Before Tax	10,308,479	10,628,242
Tax	(3,426,742)	(3,928,448)
Net Profit	**6,881,737**	**6,699,794**

DIVIDEND

The Directors recommend a dividend of Kshs 516.13 million for the year 2017/18. Dividend for the year 2016/17 was Kshs 502.4 million. The dividends will be paid in conformity with the Authority's policy on dividends.

DIRECTORS

The directors' who held office during the year and to date are shown on page 3.

AUDITORS

The Office of the Auditor General is responsible for the audit of the Authority's books, in accordance with Article 229 of the constitution of Kenya and section 7(1) of the Public Audit Act, 2015. The Audit is undertaken with due regard to the stipulations of the Kenya Ports Authority Act (Cap 391) of 1978, the State Corporations Act (Cap 446) of 1986, the Public Finance Management (PFM) Act, 2012, the Public Procurement and Disposal of Assets Act, 2015 and the various circulars and guidelines from the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works and the National Treasury. In accordance to section 23 of the Public Audit Act 2015, the Auditor General is empowered to nominate another Auditor to carry out the audit on their behalf.

By order of the Board

Addraya Dena

GENERAL MANAGER, BOARD & LEGAL SERVICES

Statement of Directors' Responsibility

Section 81 of the Public Finance Management Act 2012, Section 14 of the State Corporations Act, 1986 and Section 20 of Kenya Ports Authority Act, 1978 requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Authority as at the end of the financial year and of the operating results. It also requires the directors to ensure that the Authority keeps proper records which disclose, with reasonable accuracy at any time, 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 of Financial Statements that 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 30 June 2018. The responsibility includes:

(i) Maintain adequate financial management arrangements and ensure 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) Design, implementing and maintain internal controls relevant to the preparation and presentation of the financial statement 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

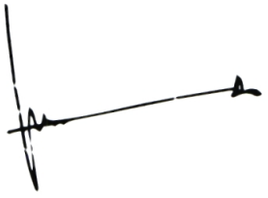
The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with the International Financial Reporting Standards and in the manner required by the Public Finance Management 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 financial affairs of the Authority's transactions during the financial year ended 30th June 2018 and of the Authority's financial position as at that date. The directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statement 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 the next twelve months from the date of this statement.

The Authority's financial statements were approved by the Board of Directors on 31 August 2018 and signed on its behalf by:

Gen. (Rtd) Joseph. R. E. Kibwana, EGH, CBS
CHAIRMAN

Dr. Peter N. Muracia
DIRECTOR



Dr. Arch. Daniel Ogwoka Manduku
MANAGING DIRECTOR

REPORT OF THE AUDITOR GENERAL

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA PORTS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Ports Authority set out on pages 49 to 112 which comprise the statement of financial position as at 30 June 2018, and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows, and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Ports Authority as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards(IFRS) and comply with Kenya Ports Authority Act CAP 391.

Basis for Qualified Opinion

1.0 Inaccuracies in the Financial Statements

The financial statements for the year ended 30 June 2018 contained casting errors totaling to Kshs.4,910,000 in absolute terms as detailed below:

S/No.	Description	Figure as Per Financial Statement (Kshs.)	Re-casted Figure (Kshs.)	Absolute Casting Error (Kshs.)
1.	Statement of comparison of budget and actual amounts - Profit before tax	8,461,059,000	8,456,060,000	4,999,000
2.	Note 11- Property, Plant and Equipment – net book value as at 30 June 2018	144,614,772,000	144,614,861,000	(89,000)
	Total	**153,075,831,000**	**153,070,921,000**	**4,910,000**

Consequently, the accuracy and completeness of the property, plant and equipment balance of Kshs.144,614,772,000 and the statement of comparison of budget and actual amounts net profit of Kshs.8,461,059,000 for the year ended 30 June 2018 could not be confirmed.

2.0 Other Income

Note 7 to the financial statements for the year ended 30 June 2018 reflects sale of passes amounting to Kshs.115,049,000. However, the management, through a notice addressed to port users dated 24 January 2014 varied the Gazetted port passes charges by making the port passes VAT inclusive without Board approval. This is contrary to Section 10(b) of Kenya Ports Authority Act CAP 391 and the Authority's Gazetted tariff book of 1 December 2012 which provides that all charges and fees in the tariff book are exclusive of VAT and which may have resulted to loss of revenue and VAT to Government as tabulated below:

Sale of passes as per Statement Kshs.	Sale of passes as per Tarrif book Kshs.	VAT on sales as per Statement (Revenue Loss) Kshs.	VAT on sales as per Tarrif book Kshs.	VAT variance Kshs.
115,049,699	133,457,650	18,407,952	21,353,224	2,945,272

Consequently, the management is in breach of the Law and its own tariff and may have occasioned loss of revenue amounting to Kshs.18,407,952 and VAT due to the Government amounting to Kshs.2,945,272 for the year ended 30 June 2018.

3.0 Establishment Expenses

3.1 Incentive Scheme

Note 9 to the financial statements for the year ended 30 June 2018 reflects incentive scheme of Kshs.29,607,000. However, payroll records availed for audit review indicated that the actual amount paid was Kshs.97,398,000, resulting to a variance of Kshs.67,791,000 which was not explained nor reconciled.

Consequently, the accuracy and completeness of incentive scheme expenses of Kshs.29,607,000 for the year ended 30 June 2018 could not be confirmed.

3.2 Overtime Allowances

Note 9 to the financial statements for the year ended 30 June 2018 reflects overtime allowances of Kshs.2,688,474,000. Included in the overtime allowances of Kshs.2,688,474,000 are third shift allowances of Kshs.352,823,224 paid during the year under audit review. Records availed for audit indicated that basic pay for third shift was Kshs1,505,224,910. However, according to the Collective Bargaining Agreement of 2018/2019 paragraph 14(e) third shift is regarded as a normal shift like the first and second shifts but due to the odd hours worked, the compensation is 15% of the basic monthly salary. Therefore, the maximum amount payable as third shift overtime allowances should have

been Kshs.225,783,737, being basic pay of Kshs.1,505,224,910 per annum x 15% for the year 2017/2018. This resulted to overpayment of Kshs.127,039,487.

Consequently, the overtime allowances amounting to Kshs.127,039,487 paid to the staff during the year ended 30 June 2018 are irregular and not proper charge to public funds.

3.3 Staff Allowances

Note 9 to the financial statements reflects staff allowances of Kshs.1,936,776,000, out of which Kshs.91,844,375 was paid as follows:

	Allowance type	Amount (Kshs)
1	Pilot Trainee Allowance	11,745,000
2	Pilot Survey Fees	9,270,000
3	Pilotage Allowance	69,309,375
4	Pilot Trips	1,520,000
	Total	**91,844,375**

However, the Ministerial approval for the above allowances was not availed for audit. This is contrary to Section 11(c) of the Kenya Ports Authority Act Cap 391 of 1978 which requires Ministerial approval of major alterations of salaries and wages or other terms and conditions of service of employees.

Consequently, the propriety and validity of staff allowances of Kshs.91,844,375 for the year ended 30 June 2018 could not be confirmed.

4.0 Operating Expenses

4.1 Marine Spares

Note 10 to the financial statements for the year ended 30 June 2018 reflects marine spares expenses of Kshs.302,581,000. However, included in the amount is Kshs.9,604,552 on servicing of marine equipment and pilot boat-Nahodha II whose support invoice was issued on 29 March 2018, before Local Service Order of 4 April 2018 was issued.

Further, report of the inspection and acceptance committee was not availed for audit review nor the replaced parts produced for audit inspection.

Consequently, the propriety and validity of Kshs.9,604,552 on marine spares for the year ended 30 June 2018 could not be confirmed.

4.2 Repairs of Port Infrastructure

Note 10 to the financial statements for the year ended 30 June 2018 reflects repairs of port infrastructure expenditure of Kshs.1,028,154,000. Included in the expenditure is Kshs.120,964,062 on various works as detailed below:

	Details	Amount (Kshs.)
1	Proposed Civil Works and Rehabilitation of Containers into offices at the Authority's outer ports and Shimoni Station	25,566,339
2	Proposed fencing of parcel MN/111/528 - Takaungu	42,341,802
3	Proposed fencing of parcel MN/111/528 - Takaungu	29,004,015
4	Proposed fencing for LR no. MN/V/162 – Jomvu Kuu	24,051,904
	Total	**120,964,060**

Site visit of Takaungu and Jomvu in the month of October 2018, could not identify the work done. Further, fabricated office containers were not seen at Shimoni outer port during project verification in the same month of October 2018.

Consequently, the propriety and value for money for Kshs.120,964,060 on the four (4) projects for the year ended 30 June 2018 could not be confirmed.

5.0 Administrative Expenses

The statement of profit and loss and other comprehensive income for the year ended 30 June 2018 reflects administrative expenses of Kshs.3,450,148,000, as detailed in note 8 to the financial statements. The following observations were made:

5.1 Water Supply Services

Note 8 to the financial statements for the year ended 30 June 2018 reflects water supply services of Kshs.149,511,000. However, included in this amount is Kshs.98,442,012 whose delivery notes were not availed for audit review.

Consequently, the propriety and validity of Kshs.98,442,012 on water supply services for the year ended 30 June 2018.

5.2 Licenses and Computers

Note 8 to the financial statements for the year ended 30 June 2018 reflects licenses and computers expenditure of Kshs.710,795,000. Included in this expenditure is Kshs.298,253,000(US$ 2,953,000) for integrated security system annual maintenance, out of which Kshs.126,048,000 (US$ 1,248,000) was spent on systems spares and stock parts which was expensed instead of being treated as part of inventory in line with accounting policy disclosed under Summary of Significant Accounting Policies 4(j) which states that, 'The Authority has a policy of stocking consumable strategic spare parts for a line of operational equipment. The spares are included in the inventory.'

Consequently, the validity of Kshs.126,048,000 on licenses and computer expenditure for the year ended 30 June 2018 could not be confirmed.

5.3 Pension Scheme Expenses

As similarly reported in the previous year, the statement of profit and loss and other comprehensive income reflects administrative expenses amount of Kshs.3,450,148,000 for the year ended 30 June 2018. Included in this amount are expenses paid by the Authority on behalf of Kenya Ports Authority's Pension Scheme's administrative expenses amounting to Kshs.62,320,801 as detailed in appendix I. This was done contrary to the Treasury Circular 18/2010-52(10) dated 24 November 2010 which requires the employer to meet the set up costs for the scheme only for the first year. Although the management has indicated that a process of delinking the pension's scheme expenses from the Kenya Ports Authority Board has been initiated, the process had not been concluded as at 30 June 2018.

Consequently, it has not been possible to confirm the propriety of Kshs.62,320,801 on Pension Scheme's administrative expenses for the year ended 30 June 2018.

6.0 Property, Plant and Equipment

The statement of financial position as at 30 June 2018 reflects property, plant and equipment balance of Kshs.144,614,772,000 as detailed in note 11 to the financial statements. The following observations were made;

6.1 Alienated Properties

As similarly reported in the previous year, the statement of financial position as at 30 June 2018 reflects property plant and equipment balance of Kshs.144,614,772,000. The property plant and equipment balance included land leased valued at Kshs.6,162,840,000 and land and buildings balance of Kshs.22,354,767,000.

Information availed for audit review indicated that twenty-nine (29) properties belonging to the Authority had been invaded by third parties as outlined in the Appendix II. The Management indicated that third parties had purportedly acquired ownership rights over the properties and undertaken development. However, the Authority had filed suit in various law courts which were pending determination.

Further, out of these twenty-nine (29) properties, only nine (9) properties had values totaling to Kshs.313,400,000 while twenty (20) properties were included in the fixed assets register at nil values. Consequently, the property plant and equipment balance of Kshs.144,614,772,000 as at 30 June 2018 was therefore not fairly stated.

6.2 Land Without Title Documents

As reported in the previous year, included in the property, plant and equipment balance of Kshs.144,614,772,000 for the year ended 30 June 2018 is land and buildings valued at Kshs.22,354,767,000 owned by the Authority. Documents availed for audit review indicated that the Authority did not have title deeds for thirty-four (34) parcels of land valued at Kshs.3,478,490,000 as detailed in Appendix III.

Although the Management engaged a private consultant in the month of May 2017 to conduct verification of all its properties, the report of the consultant was not availed for audit review.

6.3 Idle Parcels of Land

As reported in the previous years, the property plant and equipment balance of Kshs.144,614,772,000 as at 30 June 2018 includes fourteen (14) pieces of land measuring about 263.47 hectares and valued at Kshs.660,932,445 which are not utilized as detailed in Appendix IV.

Although the management has indicated the proposed action plan for each parcel of land, the actions has not been executed and status remains as reported in the previous year.

6.4 Reclaimed Land

6.4.1 Excision of Part of Harbour Area

As similarly reported in the previous financial year, KPA tariff book pronounces all the tidal waters encircling the Mombasa Island as Harbour Area. However, a firm of private developers has reclaimed part of the waters encircling the island adjacent to the Kenya Ports Authority offices.

The Authority vide a letter Ref TSM/3/1/03 dated 20 September 2010, inquired from the developer the reason for reclaiming land which had not been communicated to the Authority. On 17 December 2015, the National Land Commission vide letter Ref NLC/CHAIRMAN/VOL.XIII/310 indicated to the developer that some of land parcels ref LR NO.MN/VI/4789, LR NO. VI 4180, 3819 and 3823 were reclaimed and which according to the Commission amounted to allocation and had to be sanctioned by the Commission. The Commission requested for letter of application for and approval to reclaim the land. The Commission further instructed immediate cessation of any development on the subject land and its environs until determination of the matter.

In the year under review, the Authority did not provide any indication that the National Land Commission had sanctioned reclamation of the land and that the Minister responsible for transport had permitted change of the harbor area as required by Section 34 of the Kenya Ports Authority Act Cap 391.

The developer, therefore, illegally excised part of the harbor area and has proceeded to develop the same against the instruction issued by the National Land Commission.

6.4.2 Approval of Access Road

As similarly reported in the previous financial year, the Authority's Board approved the construction of a road linking the reclaimed parcels of land by the same developer to the Port through a defined route on parcel MSA/BLOCK 1/691 which was reclaimed through dumping material from the Port. The road is restricted for use by the developer only who has installed a weighbridge and an office. The Authority indicated that the title for the reclaimed land was acquired by the developer on behalf of the Authority at the developer's cost. The

reclaimed land forms part of the harbor area which could only be amended by a gazette notice by the Minister responsible for transport and not the Authority's Board or management.

The management has not explained how the developer applied for and acquired title for the irregularly reclaimed land on behalf of the Authority and who authorized the management to initiate the transaction. The Authority therefore violated Part IV Section 8(e) of Kenya Ports Authority Act, (Cap 391) of 1978 that requires the Board to ensure that 'no particular person or body is given any undue preference or is subjected to any undue disadvantage'.

In light of the foregoing, it has not been possible to ascertain the accuracy, completeness and ownership of the property, plant and equipment balance of Kshs.144,614,772,000 and that the balance is fairly stated as at 30 June 2018.

6.5 Assets Disclosed on Estimated Values

Note 11 to the financial statements for the year ended 30 June 2018 reflects equipment, motor vehicles and furniture balance of Kshs.24,007,820,000, which includes assets additions of Kshs.7,297,741,000. This includes assets additions of Kshs.1,882,918,233 in respect of assets donated by the National Government through Kenya Railways Corporation. However, no documents were provided to support the values of the donated assets.

Consequently, the accuracy and completeness of assets valued at Kshs.1,882,918,233 included in the property, plant and equipment as at 30 June 2018 could not be confirmed.

6.6 Work in Progress

Note 11 to the financial statements for the year ended 30 June 2018 reflects work in progress (WIP) balance of Kshs.26,660,435,000, out of which Kshs.16,301,660,274 is in respect of Lamu Port Project funded by National Government Grants. However, Lamu Port land costing Kshs.1,925,347,735 was not included in the property, plant and equipment balance of Kshs.144,614,772,000 as at 30 June 2018.

Further, during physical verification of the construction works at Lamu Port in the month of October 2018, it was observed that the Project Affected Persons, were still occupying the land despite receipt of full compensation. In addition, a schedule of compensation of beneficiaries provided by the Authority indicated an amount of Kshs.1,304,487,369 which varied with Kshs.1,925,347,735 which is included in the work in progress resulting to a variance of Kshs.620,860,366. The discrepancy of Kshs.620,860,366 has not been explained or reconciled.

Consequently, the accuracy and completeness of the WIP balance of Kshs.26,660,435,000 as at 30 June 2018 and the propriety of Kshs.620,860,366 paid to Project Affected Persons could not be confirmed as at 30 June 2018.

7.0 Intangible Assets

Note 13 to the financial statements as at 30 June 2018 reflects intangible assets balance of Kshs.675,383,000. Included in this balance is KWATOS marine operation module procured at a cost of Kshs.52,797,750(US$.522,750). However, as at the time of audit in the month of October 2018, the marine module was not operational despite the Final Acceptance Certificate having been signed on 8 August 2009, an indication that the system has been idle for the last nine years. Further, the Authority had continued incurring annual maintenance cost of Kshs.15,913,257 (US$ 157,557).

Consequently, the accuracy and value for money of the intangible assets balance of Kshs.675,383,000 as at 30 June 2018 could not be confirmed.

8.0 Receivables and Prepayments

8.1 Long Outstanding Receivables

As reported in the previous financial year, the receivables and prepayments balance of Kshs.14,500,357,000 as at 30 June 2018, includes Kshs.287,231,000 owed by the Ministry of Transport (Treasury/Dredgco Limited) that has been long outstanding. However, the management has fully impaired this amount owed by the National Government.

Further, included in the balance was trade receivables comprising of cargo, marine and rent receivables of Kshs.91,256,373, Kshs.827,938,040, Kshs.45,076,821 respectively. A review of the aging analysis indicated that Kshs.964,271,233 has been outstanding for more than 1 year while the Authority continued to engaged in business with the debtors.

Under the circumstances, the accuracy and completeness of the receivables and prepayments balance of Kshs.14,500,357,000 as at 30 June 2018 could not be confirmed.

8.2 Advance Lamu Creditors

Note 22(b) to the financial statements for the year ended 30 June 2018 reflects advance Lamu creditors balance of Kshs.2,703,552,000. However, this amount varied with Lamu Port advance payments balance of Kshs.1,987,206,000 disclosed under Note 28 by Kshs.716,346,000. The variance has not been explained nor reconciled.

Consequently, the accuracy and completeness of advance creditors balance of Kshs.2,703,552,000 as at 30 June 2018 could not be confirmed.

9.0 Long Term Investments

The statement of financial position as at 30 June 2018 reflects long term investments balance of Kshs.3,244,997,000 as disclosed in Note 20 to the financial statements which comprised fixed deposits of Kshs.942,342,000, equities of Kshs.29,100,000 and other investments (Chase Bank deposits) of Kshs.2,273,555,000. The following observations were made;

9.1 Equities

Note 20(b) to the financial statements for the year ended 30 June 2018 reflects equities with a nominal value of Kshs.54,346,000 and shares with nominal value of Kshs.100,000,000 in respect of Kenya National Shipping Line Limited and Kenya Ferry Services Limited respectively which were fully impaired. However, share certificates for Kenya National Shipping Line Limited availed for audit review indicated that Kenya Ports Authority owned 70,023 shares with a nominal value of Kshs.70,023,000, resulting to a variance of Kshs.15,677,000. The variance has not been explained nor reconciled. Further, the impairment of these investments is contrary to International Accounting Standard No. 39 paragraph 59 which states that, 'a financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated'.

However, Kenya National Shipping Line Limited and Kenya Ferry Services Limited are still operational.

Consequently, the accuracy of Kshs.29,100,000 equities balance as at 30 June 2018 and validity of the impairment of Kshs.154,346,000 could not be confirmed.

9.2 Other Investments

Note 20(c) to the financial statements for the year ended 30 June 2018 reflects investment in Chase Bank of Kshs.2,273,555,000 after impairment by Kshs.757,852,000. Available information indicates that the impairment resulted from a moratorium on 25% of the deposits. The information further indicated that up to 50% of deposits taken up by State Bank of Mauritius be placed in fixed deposit and savings deposits account earning 6.65% per annum. However, this material matter has not been disclosed in these financial statements.

Consequently, the accuracy and validity of other investments balance of Kshs.2,272,555,000 as at 30 June 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Ports Authority in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, are of most significance in the audit of the financial statements of the current year. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

1.0 Standard Gauge Railway (SGR) Loan Agreements and Payment Arrangement Agreement

Records availed for audit review indicated that the Authority entered into a 'Payment Arrangement Agreement, which referred to two loans, for the Mombasa –Nairobi Standard Gauge Railway project' with Kenya Railways Corporation (KRC), Government of Kenya and Export-Import Bank of China (China Eximbank) on 6 November 2014. The following observations were made;

1.1 Payment Arrangement Agreement – Disclosure

Under clause 1.4 of the payment arrangement agreement, Kenya Ports Authority (KPA) and Kenya Railways Corporation (KRC) were required to enter into a Long Term Service Agreement which provides under paragraph(C) of the preamble that 'the repayment of the principal and payment of the interest and fees of the loans are to be secured, inter alia, by a Long Term Service Agreement with an aim of guaranteeing a minimum amount of freight throughout the term of the agreement to be charged and received by the operator for the Project, which shall be used to secure the repayment of principal and interest'.

Further, the Long Term Service Agreement between KRC and KPA also provides under clause 7 (c) that "that KPA shall make good any short fall arising either on account of failure to consign the minimum cargo as stipulated in Schedule 1 or to remit the amount of money commensurate with the volume of cargo so consigned and shall pay to Kenya Railways Corporation such an amount as is required to make good the short fall within a period of 30 days following the completion of reconciliation exercise". In the event of default by Kenya Railways Corporation to pay China Eximbank collected freight and service charges, Kenya Ports Authority would be compelled to deposit the amount due to Kenya Railways Corporation to bank account designated by the China Eximbank.

However, this information is not disclosed in the financial statements, contrary to International Accounting Standards No. 1 paragraph 17(c) which states that, 'a fair presentation also requires an entity, to provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance'.

1.2 Payment Arrangement Agreement – Misrepresentation

The Agreement in clause 17.5 also refers to Kenya Ports Authority as a borrower, contrary to the aforementioned details that Kenya Ports Authority's only obligation is to facilitate/guarantee minimum freight volumes to meet the requirements of the Long Term Service Agreement. Under this Clause, the Agreement provides that each of the borrowers, in this case Kenya Railways Corporation and Kenya Ports Authority agrees that any proceedings against them or any of their assets (present or future) in connection with the Agreement, no immunity from such proceedings shall be claimed by it or with respect to its assets and they irrevocably waive any right of immunity whether characterized as sovereign immunity or otherwise'.

1.3 Missing Loan Agreements

According to the agreement, the Bank is the lender while the Government of Kenya is the borrower. The loan amount consisted of preferential credit loan agreement of 11 May 2014 for Kshs.161.6 billion (US$ 1,600,000,000) and a buyer credit loan agreement of the same date for Kshs.202.36 billion (US$ 2,003,584,028) all totaling to Kshs.363.96 billion (US$.3,603,584,028), from China Eximbank. These two loans had two separate loan agreements. However, the two loan agreements were not availed for audit review.

1.4 Payment Arrangement Agreement – Risks

From analysis of the terms of the Agreements referred to above, the Authority faces the following risks;

i. The terms of the payment arrangement agreement are unfavorable to Kenya Railways Corporation, Government of Kenya and Kenya Ports Authority as regards to the dispute resolution between them and the Bank since all disputes are to be referred to China International Economic and Trade Arbitration Commission as provided in the Payment Arrangement Agreement of 6th November 2014 under paragraph 17 on Governing Law and settlement of disputes. Paragraph 17.2 states that, "It is agreed that any dispute arising out of or in connection with this agreement or any non-contractual obligation arising out of or in connection with this agreement to which China Eximbank is party or in which China Eximbank is involved, which shall not be settled by mutual agreement of the parties, shall be referred by any party to China International Economic and Trade Arbitration Commission ("CIETAC") for arbitration in accordance with CIETAC's applicable rules. The place of arbitration shall be Beijing, PRC. The language of arbitration shall be English. Each arbitration award shall be final and binding on all parties'.

ii. The Payment Arrangement Agreement substantively means that the Authority's revenue would be used to pay the Government of Kenya's debt to China Eximbank if the minimum volumes required for consignment are not met as per Schedule 1 Paragraph 7(c) of the Long Term Service Agreement between KPA and KRC which states that, 'KPA shall be responsible to make good any shortfall arising either on account of the failure to consign the minimum volume of cargo as stipulated in schedule 1 or remit the amount of money commensurate with the volume of cargo so consigned and shall pay to KRC such an amount as is required to make good the shortfall within a period of (30) calendar days following the completion of the reconciliation exercise.'

iii. Kenya Ports Authority assets are exposed to risk of takeover by the lender since the Authority signed the Payment Arrangement Agreement. Clause 17.5 of the agreement states that, 'Each of the Borrower, KRC and KPA agrees that in any proceedings against it or any of its assets (present or future) in connection with this agreement no immunity (whether characterized as sovereign or otherwise) from such proceedings shall be claimed by it or in respect to its assets(present or future) and it irrevocably waives any right of immunity (whether characterized as sovereign immunity or otherwise)'.

Consequently, it appears from the Payment Arrangement Agreements that Kenya Ports Authority's revenue and assets have expressly guaranteed the repayment of the loan amounting to Kshs.363.96 billion financing the standard gauge railway, a material fact which has not been disclosed in the financial statements for the year ended 30 June 2018.

Other Matter

1. Budget Control and Performance

1.1 Revenue Budget

During the year under review, the Authority had a total revenue budget of Kshs.42,434,260,000 against actual revenue collections of Kshs.45,314,169, resulting to net over collection of Kshs.2,879,909,000 or 7% as summarized below:

Details	Final Budget	Actual Collections for 2017/2018	Under Collection	Over Collection	%
	Kshs '000'	Kshs'000'	Kshs'000'	Kshs'000'	
Operating Revenue	41,101,260	42,738,520	-	1,637,260	4
Finance Income	884,759	1,728,950	-	844,191	95
Other Incomes	444,684	891,023	-	446,339	100
Other Gains	3,557	(44,324)	47,881	-	-
Total	**42,434,260**	**45,314,169**	**47,881**	**2,927,790**	**7**

The table able above indicates that the Authority realized 95% over collections on finance income, and 100% over collection on other income. Although the over collection on other incomes is due to accrued income on salvage operations of a ship which had run aground, no satisfactory explanation has been given for the significant variance in finance income. Further, excess collection of 7% could be a sign of under budgeting on the side of revenue, an indication that the entity has room for more revenue collection.

1.2 Expenditure Budget

During the year under review, the Authority had a total budget Kshs.33,978,200,000 while expenditure totalled Kshs.35,005,690,000 or 103%, resulting to a net over-expenditure of Kshs.1,027,490,000 or 3% as detailed below:

Details	Final Budget	Actual Expenditure for 2017/2018	Over expenditure	Under expenditure	
	Kshs.'000'	Kshs.'000'	Kshs.'000'	Kshs.'000'	%
Administrative Expenses	3,491,817	3,450,148	-	41,669	1
Establishment Expenses	17,890,921	17,789,138	-	101,783	1
Operating Expenses	4,846,363	4,899,622	53,259	-	1
Depreciation & Amortization	7,400,000	7,658,763	258,763	-	3
Finance cost	319,099	170,624		148,475	47

	Final Budget	Actual Expenditure for 2017/2018	Over expenditure	Under expenditure	
Details	**Kshs.'000'**	**Kshs.'000'**	**Kshs.'000'**	**Kshs.'000'**	**%**
Impairment Loss	30,000	1,037,395	1,007,395	-	3,358
Total	**33,978,200**	**35,005,690**	**1,319,417**	**291,927**	**3**

The over expenditure on impairment was mainly as a result of provision for loss on cash deposits in Chase Bank which went under after the budget had been approved. The Bank's unplanned liquidation may have curtailed the Authority's ability to execute its mandate for the year ended 30 June 2018.

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. Recruitment

Note 9 to the financial statements for the year ended 30 June 2018 and related human resource records indicate that during the year under review, the Authority recruited six hundred and thirty-five (635) new staff, comprising twenty-three (23) management positions and six hundred and twelve (612) unionisable employees. However, the management did not provide details of how the number recruited was determined and approval of the Board to recruit.

Further, no application letters were availed for audit review while ninety-eight (98) new employees were not assigned specific roles after appointment, an indication that the Authority may have recruited excess staff with no value addition.

Consequently, it has not been possible to ascertain that the recruitment of the staff was in line with establishment laws and regulations and that the same was in line with KPA establishment.

2. Gender Composition

The biodata presented for audit review indicated that the Authority had 7,012 employees as at 30 June 2018, out of whom men were 5,586 (79.7%) while women were 1,426(20.3%). This contravened the Head of Public Service Circular No OP/CAB.13/5A of 7th November 2006 which directed that 30% of recruitments and promotions should be women in order to enhance gender equity. As such the Authority is in breach of the Law.

3. Short Term Deposits

The statement of financial position as at 30 June 2018 reflects short-term deposits balance of Kshs.17,988,504,000. Records availed for audit review indicated that the management made call deposit investments in commercial banks for periods between 1-182 days during the period under audit review. This is contrary to the National Treasury Circular No.13/2017 paragraph 34 which prohibits state corporations from investing surplus funds in any financial institution without prior approval of the National Treasury other than when the investment is in Treasury bills or bonds. The management engaged in this practice despite having Kshs.3billion locked in a collapsed commercial bank with a probable loss of over Kshs.757,852,000 as disclosed in note 16 to the financial statements.

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, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, 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

1. Manual Processing of Marine Bills

The Authority has a major application system for management of its operations (KWATOS - Kilindini Waterfront Automated Terminal Operating System) and for financial management (SAP- Systems Applications and Products). However, as at the time of audit in October 2018, the marine module part of the KWATOS that was procured at a cost of Kshs 52,797,750 (USD 522,750) was not operational although the system had been fully paid for by the Authority. Due to this shortcoming, staff at marine department prepare marine records (Pilotage, Navigational Dues, Tug services, Mooring, Dockage and Fresh water for ships) manually, which are later filed per vessel and taken to finance department for billing in SAP. This exposes the marine billing to manipulation and errors.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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 Financial Reporting 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. In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the Authority or to cease operations, or have no realistic alternative but to do so.

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 money is applied in an effective manner in line with article 229(6) of the constitution of Kenya 2010.

Those charged with governance are responsible for overseeing the Authority's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether 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 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 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 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 going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause Kenya Ports Authority to cease to continue as a going concern or to sustain its services.

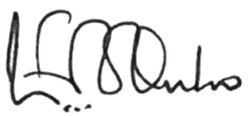
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of Kenya Ports Authority to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

Nairobi

17 April 2019

Appendices
Appendix I

Pension Department Expenses

Pension Department Expenses		
	Expenditure	**Kshs**
1	Basic salary	39,321,010.50
2	Overtime	2,800,228.71
3	Staff allowances	2,780,358.50
4	Norm. Staff house Allowance	8,104,983.87
5	Duty travel	1,838,445.00
6	Leave travel	926,000.00
7	Motor mileage	5,015,500.00
9	Fuel	211,039.59
12	Clean implements	121,400.32
13	Print stationary	186,005.39
15	Office incidentals	261,979.00
19	Victuals & snacks	235,060.00
20	Professional	518,789.70
Total Expenditure		**62,320,800.58**

Appendix II
Alienated Properties

	Plot No.	Financial Statement Value Kshs	Allocated to	Status	Case No./ Lawyers
1.	XLVII/112 0.7503 Acres	80m	Stone Wave Limited P.O. Box 82576 Mombasa Directors Abbasali A.G. Dossa Naushad A. Merali	Warehouses	HCCC NO. 499/01 Timamy & Co. Advocate A.B. Patel & Patel Advocates
2.	XLVII/113 0.535 Acres	31m	Supernova Properties P. O. Box 82077 Mombasa Directors Ashok L.Doshi Doshi Group of Companies	An office block has been constructed on the plot	HCCC NO. 40/05 Timamy & Co. Advocate A.B. Patel & Patel Advocates
3.	XLVII/114 0.363 Acres	19.8m	Suntania Limited P. O. Box 87270 Mombasa	A boundary stone wall has been built	HCCC NO. 40/05 Timamy & Co. Advocate A.B. Patel & Patel Advocates
4.	XLVII/115	23.2m	Freight Constructions services	Boundary wall and offices constructed	HCCC No.43/05 Timamy & Co. Advocate A.B. Patel & Patel Advocates

	Plot No.	Financial Statement Value Kshs	Allocated to	Status	Case No./ Lawyers
5.	XLVII/116	35m	Freight Constructions services	Boundary wall and offices constructed	HCCC No.43/05 Timamy & Co. Advocate A.B. Patel & Patel Advocates
6.	XLVII/117 0.558 Acres	22.9m	Nature System Limited P. O. Box 19002 Nairobi Directors Abdul-Gaffur Abdulgani Pastor Abdulgani Abdul-Gaffur Pastor	Boundary wall constructed	HCCC No. 496/01 Timamy & Company Advocates A.B.Patel & Patel Advocates
7.	XLVII/118	51.1m	TSS Grain Millers P. O. Box 85039 Mombasa	Boundary wall constructed	HCCC No.41/2005 Timamy & Company Advocates A.B.Patel & Patel Advocates
8.	XXVI/1001 0.1805 Ha	6m	Wayland Limited P. O. Box 12416 Nairobi Directors Not on company registry database Geometer Ltd – Directors Godon Wayumba , Alice Ochieng , Francis Odhiambo	KPA house occupied by OCPD Port	HCCC No. 500/01 Timamy & Company Advocates A.B. Patel & Patel Advocates
9.	XLVII/155 0.0675 Ha	44.4m	Oceanfreight (MSC) P. O. Box 80637 Mombasa	Grabbed and sold to MSC. Car Park built	As above
10	**313.4m**				
11	XLVII/111 0.2833 Ha	0	Robert Mutiso P. O. Box 285587 Nairobi	2. No.semi-detached staff quarters. Authority's employees in occupation	HCCC No.495/01 Timamy & Co. Advocate A.B. Patel & Patel Advocates
12	XLVII/179 0.0336 Ha	0	Akaba Investment P. O. Box 8997 Mombasa Directors Abdikarim Shigog	Construction had commenced but was stopped by a court order	HCCC No.124/01Karigithu & Company Advocates
13	1/469 0.2501 Ha	0	Hydery (P) Limited P. O. Box 82576 Mombasa Masumali G. Merali	Warehouse built on plot	No court case

	Plot No.	Financial Statement Value Kshs	Allocated to	Status	Case No./ Lawyers
			Naushad A. Merali		
14	XXVII/508 0.1278 acres	0	Essam Properties P. O. Box 82578 Mombasa Directors Masumali G. Merali Naushad A. Merali	KPA house demolished. A boundary stone wall built on the plot	HCCC No. 497/01 Timamy & Co. Advocates A.B. Patel & Patel Advocates
15	XXVI/928 0.900 acres	0	Kilifi Gardens Limited P. O. Box 82576 Mombasa Directors Masumali G. Merali Naushad A. Merali	KPA house demolished. A boundary wall built around the plot.	HCCC No. 498/01 Timamy & Company Advocates A.B. Patel & Patel Advocates
16	XLVII/149	0	Osman Taraab and Zera Taraab	Warehouses	No court proceedings
17	XLVII/150 0.1551 Ha	0	Sunnex Ent. Limited P. O. Box 82077 Mombasa Directors Ashok L.Doshi Doshi Group of Companies	Plot created from road reserve at either side of road at Dockyard and adjacent to Port fence	No court proceedings
18	XLVII/151 0.450 Ha	0	Venezia Ent. Limited P. O. Box 86029 Mombasa Directors Abdul-Gaffur Abdulgani Pasta Abdulgani Abdul-Gaffur Pasta	As above. No development	No court proceedings
19	XLVII/152 0.450 Ha	0	Venezia Ent. Limited P. O. Box 86029 Mombasa Abdul-Gaffur Abdulgani Pasta Abdulgani Abdul-Gaffur Pasta	As above	As above
20	XLVII/153 0.450 Ha	0	As above	As above	As above
21	XLVII/154 0.0450	0	As above	As above	As above
22	XLVII/162 0.0451 Ha	0	Vanezia Ent. Limited P. O. Box 86029 Mombasa Abdul-Gaffur Abdulgani Pasta Abdulgani Abdul-Gaffur Pasta	As above. Plot created from road reserve being managed by KPA.	As above

	Plot No.	Financial Statement Value Kshs	Allocated to	Status	Case No./ Lawyers
23	XLVII/163 0.0531	0	Osman Hajj Talab & Zera Osman Talab P. O. Box 98142 Mombasa	As above. Plot created from railway reserve Boundary wall and buildings	Railway siding plots allocated to private individuals. No Advocates are handling these cases.
24	XLVII/164 0.500 Ha	0	As above	As above	As above
25	XLVII/165 0.0496 Ha	0	As above	As above	As above
26	XLVII/166 0.0497	0	Joseph Ngetich P. O. Box Mombasa	As above	As above
27	XLVII/167 0.0502 Ha	0	Lumda Ent. P. O. Box 20712 Nairobi. Mwenda Mbogori Lucy G. Mwenda	As above	As above
28	XLVII/168 0.0501 Ha	0	Gladys Tesot	As above	As above
29	XLVII/169	0	Not registered	As above	As above
30	I/528 & 529	0	Chembe Holdings and Musk Deer Daniel N Kihiko Abbas M Yusuf	Road reserve	Ethics & Anti-Corruption Commission

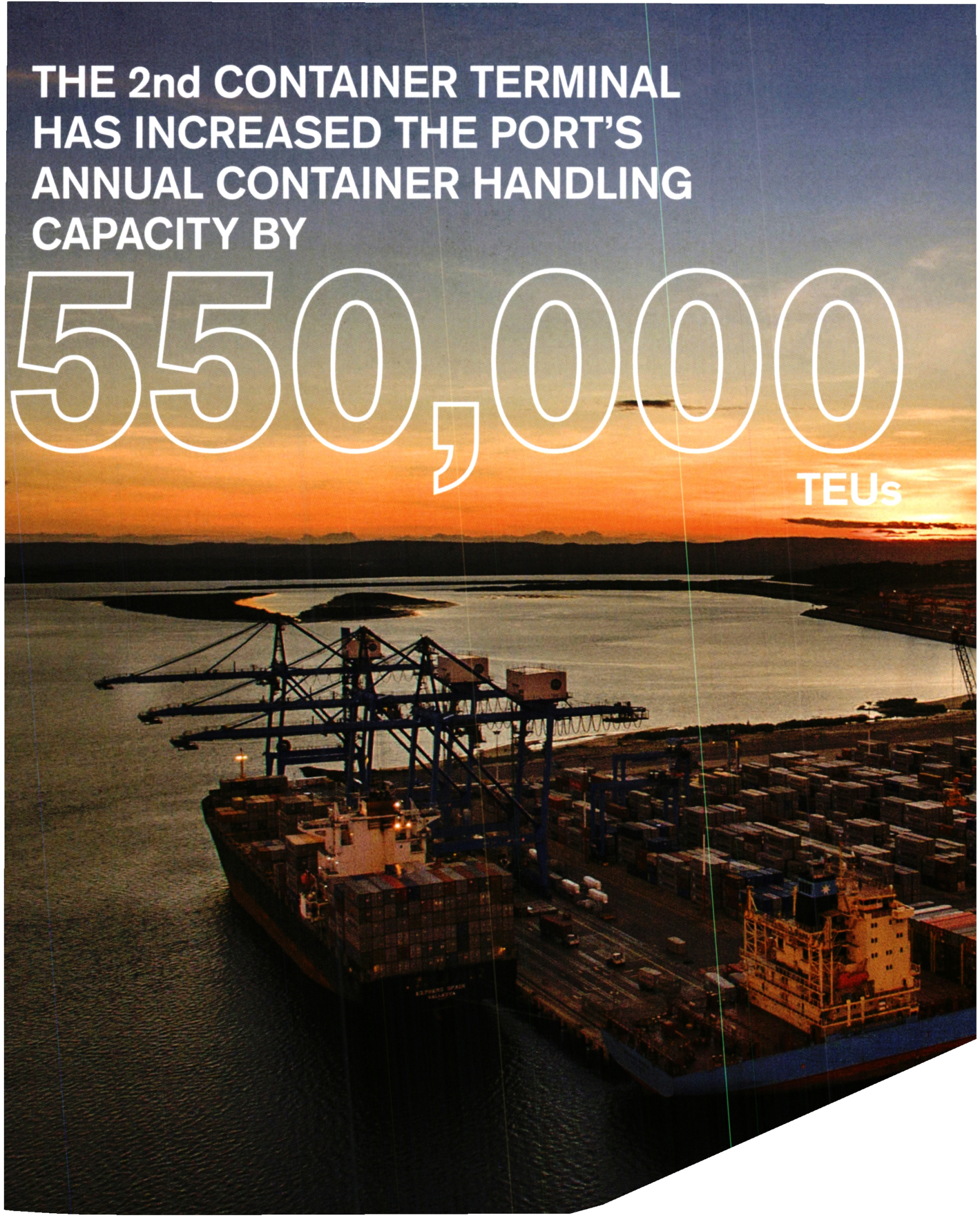
Appendix III
Pieces of Land Without Title

	Land Description	County	Value Kshs
1	Plot No. MSA/BLOCK XI/66-0.1773HA/TUDOR	Mombasa	15,000,000.00
2	Plot No. MSA/TUDOR/BLOCK XI/613 & 614-0.1771HA	Mombasa	10,000,000.00
3	Plot No. MSA/BLOCK 1/315-3.13 ACRES SHIMANZI	Mombasa	68,000,000.00
4	MSA/BLOCK 1/358 0.389 ACRES SHIMANZI	Mombasa	10,000,000.00
5	L.R. No MI/BLOCK 1/14R 7.29 ACRES (KHL) SHIMANZI	Mombasa	180,000,000.00
6	Plot No.Msa/ Shimanzi/Block 1/253(254-1.4043) HA	Mombasa	60,000,000.00
7	Plot No. MSA/MBARAKI/BLOCK XLVII/155-0.4491HA	Mombasa	44,400,000.00
8	Plot No. MSA/BLOCK XLVIII/131-1.796HA-MBARAKI	Mombasa	200,000,000.00

	Land Description	County	Value Kshs
9	Plot No. MSA/MBARAKI/BLOCK XLVIII/156-0.3024HA	Mombasa	30,000,000.00
10	Plot No. MSA/MOI AVE/BLOCK XLVII/84-0.1854HA	Mombasa	27,480,000.00
11	Plot No. MSA/LIWATONI/BLOCK XLVII/67-0.8499HA	Mombasa	84,000,000.00
12	Plot No. MSA/BLOCK XLVIII/43-3.7798HA-MBARAKI	Mombasa	373,600,000.00
13	Plot No. MSA/MBARAKI/BLOCK XLVIII/44-0.5140HA	Mombasa	50,800,000.00
14	Plot No. MSA/MBARAKI/BLOCK XLVIII/45-7.3654HA	Mombasa	728,000,000.00
15	MSA BLOCK XLVIII/164-0.2017 HA MBARAKI	Mombasa	22,500,000.00
16	MSA BLOCK XLVIII/173- LIWATONI	Mombasa	213,500,000.00
17	MSA BLOCK XLVIII/189-0.2017 HA MBARAKI	Mombasa	23,500,000.00
18	MSA BLOCK XLVIII/558-0.5539 HA MBARAKI	Mombasa	64,000,000.00
19	MSA BLOCK XLVIII/119-0.1012 HA MBARAKI	Mombasa	9,000,000.00
20	Plot No. Msa/MBARAKI/BLOCKXLVII/135-1.4314HA	Mombasa	141,400,000.00
21	Plot No. Msa/MBARAKI/BLOCK XLVII/138-0.4249HA	Mombasa	42,000,000.00
22	Plot No. Msa/MBARAKI/BLOCK XLVII/140-0.8739HA	Mombasa	86,300,000.00
23	PLOT NO. XLVII/III -0.2849 ACRES-PUTNEY BRIDGE	Mombasa	35,190,000.00
24	PLOT NO. XLVIII/121 -0.4571 Hectares-MBARAKI CLUB	Mombasa	48,900,000.00
25	PLOT NO .XLVIII/122 -0.2627 ACRES-MBARAKI CLUB	Mombasa	20,000,000.00
26	PLOT NO .BLK NO.XLVII/112 -0.7503 ACR BANDARI/W.HOUS	Mombasa	80,000,000.00
27	PL NO.BLK XLVII/113 -0.2165 ACR-BANDARI/WHITE HSE	Mombasa	31,000,000.00
28	PLOT NO.BLKXLVII/114/14 -0.1496 ACR-BANDARI/WHITE HS	Mombasa	19,800,000.00
29	PLOT NO. BLK XLVII/117 -0.2258 ACR-BANDARI/WHITE HSE	Mombasa	22,900,000.00
30	PLOT NO. BLK XLVII/118 -0.3759 ACR-BANDARI/WHITE HSE	Mombasa	51,100,000.00
31	PLOT NO .XLVII 174/77/78/79 -2.4071 ACR-B/ COLLEGE	Mombasa	453,900,000.00
32	Plot No. MSA/BLOCK XLVII/106-1.3946 HA LIWATONI	Mombasa	59,000,000.00
33	PLOT NO. I/471 BLOCK 1MSA-SHIMANZI ESTATE	Mombasa	108,000,000.00
34	LR BLOCK 15/1817 - ICD ELDORET 17.63Ha	Eldoret	65,220,000.00
	Total		**3,478,490,000**

Appendix IV
Unutilized Pieces of Land

	Parcel	County	Location(Area)	Size (Ha.)	Value (Kshs)	Status
1	MSA/XLVII/ 81, 82 & 83	Mombasa	Mombasa town along Moi Avenue	0.58	84,380,000.00	Six(6) Very old and dilapidated developments
2	MN/III/528/E	Kilifi	Takaungu Area	173.21	233,783,200.00	Occupied by squatters
3	LR/9093	Kilifi	Opposite Malindi Airport	7	66,585,000.00	Occupied by squatters
4	MS/46/1	Mombasa	Likoni Area	5.07	9,000,000.00	Open field utilized for social activities by locals
5	MS/1682/I	Mombasa	Likoni Area	2.71	26,765,000.00	Occupied by squatters
6	MS/137/II	Mombasa	Mtongwe Area	2.46	21,600,000.00	Occupied by squatters
7	LR/16121	Kwale	Shimoni Area	2.50	9,325,550.00	Vacant
8	MV/V1614	Mombasa	Kibarani Area	2.50	18,820,000.00	Occupied by squatters
9	MN/V/1683	Mombasa	Miritini Area	1.02	6,288,695.00	Vacant
10	MN/V/196	Mombasa	Jomvi Kuu Area	25.50	63,000,000.00	Vacant
11	LR 24588	Busia	Malaba town	9.181	19,650,000.00	Vacant and Fenced
12	MN/17944/45	Kisumu	Kisumu town	2.40	8,500,000.00	Being cultivated by locals
13	MN/VII/3794	Mombasa	Chaani Area	12.24	90,735,000.00	Occupied by squatters
14	MN 5325	Taita-Taveta	Taita Taveta town	17.10	2,500,000.00	Vacant and fenced
	Totals			**263.471**	**660,932,445**	


THE 2nd CONTAINER TERMINAL
HAS INCREASED THE PORT'S
ANNUAL CONTAINER HANDLING
CAPACITY BY
550,000
TEUs

FINANCIAL STATEMENTS
FY2017/2018

Statement of Profit & Loss and Other Comprehensive Income for the year ended 30 June 2018

	Note	2017/18 Kshs '000	2016/17 Kshs '000
Operating Revenue	6	42,738,520	39,603,677
Other Incomes	7	891,023	593,624
Total Revenues		**43,629,543**	**40,197,301**
Less Expenses:			
Administrative Expenses	8	(3,450,148)	(2,924,092)
Establishment Expenses	9	(17,789,138)	(16,673,130)
Other Operating Expenses	10	(4,899,622)	(3,593,881)
Depreciation property, plant and equipment	11,12	(7,590,886)	(7,482,804)
Amortization of Intangible Assets	13	(67,877)	(16,252)
Total Operating Expenses		**(33,797,671)**	**(30,690,159)**
Operating Profit		**9,831,872**	**9,507,142**
Finance Income	14	1,728,950	1,247,301
Finance cost	15	(170,624)	(142,237)
Impairment Loss	16	(1,037,395)	(111,913)
Other Gains/(Losses)	17	(44,324)	127,949
Profit before Tax		**10,308,479**	**10,628,242**
Tax Charge	18	(3,426,742)	(3,928,448)
Profit for the Year		**6,881,737**	**6,699,794**
Other Comprehensive Income (OCI)			
OCI not to be reclassified to Profit/Loss in subsequent years			
Deficit resulting from Pension Valuation		(4,747,674)	(827,826)
OCI to be reclassified to Profit/Loss in subsequent years			
Unrealized Foreign Exchange Gain/(Loss)		(168,800)	322
Forex Gain from Valuation of JICA Loan		233,121	1,570,439
TOTAL COMPREHENSIVE INCOME		**2,198,384**	**7,442,729**

Statement of Financial Position as at 30 June 2018

	Note	2017/18 Kshs '000	2016/17 Kshs '000
Non-Current Assets:			
Property Plant and Equipment	11	144,614,772	133,409,067
Assets Held for Sale	19	400	1,224
Intangible Assets	13	675,383	487,133
Leased Property	12	805,819	772,292
Long Term Investment	20	3,244,997	3,973,618
Retirement Benefit Asset	32	0	2,980,174
Total Non- Current Assets		**149,341,371**	**141,623,508**
Current Assets:			
Inventories	21	407,965	410,591
Receivables & Prepayments	22	14,500,357	8,848,612
Tax paid in advance	23	873,216	0
Short Term deposits	24	17,988,504	14,928,395
Bank and Cash Balances	24	788,363	693,457
Total Current Assets		**34,558,405**	**24,881,055**
TOTAL ASSETS		**183,899,776**	**166,504,563**
Capital and Reserves:			
Revaluation Reserves	25	39,881,910	43,296,547
General reserves	26	78,426,542	73,813,608
Grants	27	5,044,052	581,153
Total Capital and Reserves		**123,352,504**	**117,691,308**
Non-Current Liabilities:			
GOK Project Funds	28	16,212,039	13,041,039
Borrowings	29	29,493,976	24,166,431
Deferred tax liability	30	5,281,505	4,123,829
Retirement Benefit Liability	32	1,767,500	0
Total Non- Current Liabilities		**52,755,020**	**41,331,299**
Current Liabilities			
Borrowings	29	791,109	810,331
Trade and other payables	31	7,001,143	6,439,802
Current Tax payable	23	0	231,823
Total Current Liabilities		**7,792,252**	**7,481,956**
TOTAL CAPITAL & LIABILITIES		**183,899,776**	**166,504,563**

The financial statements were approved by the Board of Directors on 31 August 2018 and signed on its behalf by:

Gen. (Rtd) Joseph. R. E. Kibwana, EGH, CBS
CHAIRMAN

Patrick W. Nyoike
GM, FINANCE
ICPAK M/NO:3585

Dr. Arch. Daniel O. Manduku
MANAGING DIRECTOR

Statement of Changes in Equity for the year ended 30 June 2018

	Note	REVALUATION RESERVES Kshs '000	GENERAL RESERVES Kshs '000	GRANTS Kshs '000	TOTAL Kshs '000
Balance as at 01.07.2017		**43,296,547**	**73,813,608**	**581,153**	**117,691,308**
Profit After Tax		0	6,881,737	0	6,881,737
Other Comprehensive Income;					
Unrealized Foreign Exchange Loss		0	(168,800)	0	(168,800)
Pension Valuation Adjustment	32	0	(4,747,674)	0	(4,747,674)
Others;					
Revaluation effect/Adjustments	25	(3,414,637)	3,414,637	0	0
Trade Mark East Africa		0	0	1,811,112	1,811,112
SGR-ICDN		0	0	2,651,787	2,651,787
Dividends Paid	38	0	(1,000,087)	0	(1,000,087)
Revaluation effect of JICA Loan		0	233,121	0	233,121
Balance as at 30.06.2018		**39,881,910**	**78,426,542**	**5,044,052**	**123,352,504**

FOR THE YEAR ENDED 30 JUNE 2017

	Note	REVALUATION RESERVES Kshs '000	GENERAL RESERVES Kshs '000	GRANTS Kshs '000	TOTAL Kshs '000
Balance as at 01.07.2016		**48,084,237**	**61,741,226**	**106,268**	**109,931,731**
Profit after Tax		0	6,699,794	0	6,699,794
Other Comprehensive Income;					
Unrealized Foreign Exchange gains		0	322	0	322
Pension Revaluation Surplus Decrease		0	(827,826)	0	(827,826)
Others;					
Revaluation effect/Adjustments	25	(4,787,690)	4,787,690	0	0
Trade Mark East Africa		0	137,369	474,885	612,254
Dividends Paid		0	(295,406)	0	(295,406)
Revaluation effect of JICA loan		0	1,570,439	0	1,570,439
Balance as at 30.06.2017		**43,296,547**	**73,813,608**	**581,153**	**117,691,308**

Statement of Cash Flows for the year ended 30 June 2018

	Notes	2017/2018 Kshs '000	2016/2017 Kshs '000
OPERATING ACTIVITIES:			
Cash Generated from/(used in) Operations	33	12,085,039	16,502,768
Interest Received	7&14	1,729,468	1,240,537
Interest Paid	15	(48,466)	(41,759)
Tax Paid	23	(3,374,105)	(1,559,926)
Dividends Paid	38	(1,000,088)	(295,406)
Net cash generated from/(used in) Operating Activities		**9,391,848**	**15,846,214**
INVESTING ACTIVITIES:			
Purchase of Property, Plant and Equipment	36	(14,039,761)	(16,617,012)
Direct Acquisitions Property, Plant and Equipment		(909,978)	(219,670)
Proceeds from Disposal of Assets		11,116	5,023
Purchase of Long Term Investment	20	(29,231)	(210,925)
Transfer of Chase bank deposits to Long term investment		0	(3,031,407)
Proceeds from sale of Surveyed Stock	17	8,462	682
Net Cash generated from/(used in) Investing Activities		**(14,959,392)**	**(20,073,309)**
FINANCING ACTIVITIES:			
Receipt of GoK Project Funds	37	3,171,000	6,585,252
Payment of JICA I Loan	29	(794,496)	545,715
Receipt of JICA II Loan	29	6,346,055	603,190
Foreign currency fluctuations		0	(1,024,725)
Net Cash generated from/(used in) Financing Activities		**8,722,559**	**6,709,432**
Net increase in Cash & Cash Equivalent		**3,155,015**	**2,482,337**
Cash & Cash Equivalents as at 1 July		**15,621,852**	**13,139,515**
Cash and Cash Equivalents as at 30 June	**24**	**18,776,867**	**15,621,852**

Statement of Comparison of Budget and Actual Amounts for the year ended 30 June 2018

	Final Budget 2017/2018	Actual on Comparable Basis 2017/2018	Performance Difference 2017/2018	%
Revenue	**Kshs '000**	**Kshs '000**	**Kshs '000**	
Operating Revenue	41,101,260	42,738,520	(1,637,260)	(4)%
Other Incomes	444,684	891,023	(446,339)	(100)%
Total Revenues	**41,545,944**	**43,629,543**	**(2,083,599)**	**(5)%**
Expenses:				
Administrative Expenses	(3,491,817)	(3,450,148)	(41,669)	1%
Establishment Expenses	(17,890,921)	(17,789,138)	(101,783)	1%
Operating Expenses	(4,846,363)	(4,899,622)	53,259	1%
Depreciation & Amortization	(7,400,000)	(7,658,763)	258,763	(4)%
Total Operating Expenses	**(33,629,101)**	**(33,797,671)**	**168,570**	**0%**
Operating Profit	**7,916,843**	**9,831,872**	**(1,915,029)**	**(25)%**
Finance Income	884,759	1,728,950	(844,191)	(95)%
Finance cost	(319,099)	(170,624)	(148,475)	47%
Impairment Gain/(Loss)	(30,000)	(1,037,395)	1,007,395	(3,358)%
Other Gains/(Losses)	3,557	(44,324)	47,881	1,346%
Surplus before Tax	**8,456,060**	**10,308,479**	**(1,852,419)**	**(22)%**

Note: PFM Act section 81(2) ii and iv requires Kenya Ports Authority, a national government entity, to present appropriation accounts showing the status of votes compared with the appropriation for the vote. IFRS does not require entities complying with IFRS standards to prepare budgetary information because most of the entities that apply IFRS are private entities that do not make their budgets publicly available. However, for public sector entities, the PSASB has considered the requirements of the PFM Act, 2012 which these statements comply with, the importance that the budgetary information would provide to the users of the statements and the fact that the public entities make their budgets publicly available and decided to include this statement under the IFRS compliant financial statements. and a statement explaining any variations between actual expenditure and the sums voted.

Explanation of variations of 10% over/under between actual and final budgeted amounts are provided under additional disclosures **I.**

Notes to the financial statements for the year ended 30 June 2018

1. GENERAL INFORMATION

Kenya Ports Authority is established by and derives its authority and accountability from Cap 391 of the laws of Kenya. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is to develop, maintain, operate, improve and regulate all scheduled seaports along Kenya's coastline and inland waterways in Kenya.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

a. Statement of Compliance

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and the International Financial Reporting Standards (IFRSs). The preparation of financial statements in conformity with International Financial Reporting Standards (IFRSs) allows the use of estimates and assumptions. It also requires management to exercise judgment in the process of applying the Authority's accounting policies.

Where necessary the comparative figures for the previous financial year 2016/17 have been stated in the financial statements to conform to changes in presentation.

The financial statements were approved by the Board of Directors on 31 August 2018.

The accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied.

b. Basis of Preparation

The financial statements are prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Authority and all values are rounded to the nearest thousand (Kshs '000). They are prepared on a historical cost basis except for the recognition at fair value of financial instruments, impaired assets at their estimated recoverable amounts and actuarially determined assets at their present value.

3. ADOPTION OF NEW AND REVISED STANDARDS

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

The following new and revised standards have become effective for the current financial year;

IFRS 9 Financial Instruments- Applicable to annual reporting periods beginning on or after 1 January 2018.

Classification and measurement of financial assets

Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortized cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held.

There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch.

Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.

Classification and measurement of financial liabilities

For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.

All other IAS 39 Financial Instruments: Recognition and Measurement classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

Impairment

The impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model. The ECL model applies to debt instruments accounted for at amortized cost or at FVOCI, most loan commitments, financial guarantee contracts, contract assets under IFRS 15 Revenue from Contracts with Customers and lease receivables under IAS 17 Leases or IFRS 16 Leases.

Entities are generally required to recognize 12-month ECL on initial recognition (or when the commitment or guarantee was entered into) and thereafter as long as there is no significant deterioration in credit risk. However, if there has been a significant increase in credit risk on an individual or collective basis, then entities are required to recognize lifetime ECL. For trade receivables, a simplified approach may be applied whereby the lifetime ECL are always recognized.

Hedge accounting

Hedge effectiveness testing is prospective, without the 80% to 125% bright line test in IAS 39, and, depending on the hedge complexity, will often be qualitative.

A risk component of a financial or non-financial instrument may be designated as the hedged item if the risk component is separately identifiable and reliably measureable.

The time value of an option, any forward element of a forward contract and any foreign currency basis spread can be excluded from the hedging instrument designation and can be accounted for as costs of hedging.

More designations of groups of items as the hedged item are possible, including layer designations and some net positions.

Impact

The application of IFRS 9 may change the measurement and presentation of many financial instruments, depending on their contractual cash flows and the business model under which they are held. Financial assets measured at amortized cost, primarily trade receivables will be subject to the impairment provisions of IFRS 9. The Authority expects to apply the simplified approach to recognize lifetime expected credit losses for its trade receivables. Management is monitoring the discussions of the IFRS Transition Resource Group for Impairment of Financial Instruments. The standard is expected to be adopted by the Authority in the financial statements for the year ended 30 June 2019.

IFRS 15, 'Revenue from Contracts with Customers' - Applicable to annual reporting periods beginning on or after 1 January 2018.The new standard replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance. The 5 step model includes;

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when (or as) the entity satisfies a performance obligation

The objective of the standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cashflows arising from a contract with customers.

Impact

IFRS 15 is more prescriptive than the previous IFRS requirements for revenue recognition and provides more application guidance. The disclosure requirements are also more extensive. Adoption will be a significant undertaking for the Authority with potential changes to the current accounting, systems and processes. The extent of impact is still being assessed. This standard is expected to be adopted by the Authority in the financial statements for the year ended 30th June 2019.

Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Issued 12 April 2016) Effective for annual periods beginning on or after 1 January 2018. Amends IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

This standard is expected to be adopted by the Authority in the financial statements for the year ended 30th June 2019 and the extent of impact is still being determined.

RELEVANT NEW STANDARDS AND AMENDMENTS EFFECTIVE FOR THE YEAR ENDED 30 JUNE 2018 (CONT'D.)

IFRIC 22: Foreign Currency Transactions and Advance Consideration Applicable to annual reporting periods beginning on or after 1 January 2018. The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion:

The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.

If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

This standard is expected to be adopted by the Authority in the financial statements for the year ended 30th June 2019 and the extent of impact is still being determined.

Disclosure Initiative (Amendments to IAS 7 (Issued 29 January 2016) -Effective for annual periods beginning on or after 1 January 2017.Amends IAS 7 Statement of Cash Flows to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

This amendment did not have a material impact on the Authority's financial statements.

Amendment to IAS 12 - Recognition of Deferred Tax Asset for Unrealised Losses: Effective for annual periods beginning on or after 1 January 2017.Amendments made to IAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:

- A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.
- An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.
- Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type.
- Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

This amendment did not have a material impact on the Authority's financial statements.

Annual Improvements to IFRS Standards 2014–2016 Cycle (Issued 8 December 2016): The amendment to IFRS 12 for annual periods beginning on or after 1 January 2017. IFRS 12 - Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

ii. New and revised standards which have been issued but are not yet effective

IFRS 16, 'Leases' – this standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 provides a single lessee accounting model, requiring lessees to recognize right of use assets and lease liabilities for all applicable leases. The recognition of additional lease liabilities has the potential to change gearing and other key operating ratios.

Impact

The lease expense recognition pattern for lessees will generally be accelerated as compared to today. Key balance sheet metrics such as leverage and finance ratios, debt covenants and income statement metrics, such as earnings before interest, taxes, depreciation and amortization, could be impacted.

The Authority does not plan to adopt this standard early and the extent of the impact has not yet been determined.

Annual Improvements to IFRS Standards 2015–2017 Cycle (Issued 12 December 2017)- effective for annual periods beginning on or after 1 January 2019.Makes amendments to the following standards:

IAS 12 - The amendments clarify that the requirements in the former paragraph 52B (to recognize the income tax consequences of dividends where the transactions or events that generated distributable profits are recognized) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.

IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings. The extent of impact is still being determined.

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19-Issued 7 February 2018)- effective for annual periods beginning on or after 1 January 2019. The amendments in Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) are:

- If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement
- In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

The extent of impact is still being determined.

IFRIC 23: Uncertainty over Income Tax Treatments (Issued 7 June 2017) - effective for annual periods beginning on or after 1 January 2019. The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances
- The extent of impact is still being determined.

Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018)- effective for annual periods beginning on or after 1 January 2020. Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. The extent of impact is still being determined.

No other standards, amendments or interpretations that have been issued but are not yet effective are expected to materially impact the Authority's financial statements.

iii. Early adoption of Standards

During the year, the Authority did not early adopt any new or amended standard.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these Financial Statements are set below;

(a) Revenue Recognition

Revenue represents the fair value of consideration received or receivable for the sale of services in the course of the Authority's activities. It is recognized when it is probable that future economic benefits will flow to the Authority and the amount of revenue can be measured reliably.

It is stated net of Value Added Tax (where applicable), rebates and trade discounts. Discounts are included as part of finance costs.

Sale of services are recognized upon performance of the services and customer acceptance. The Authority only bills once the consignee for the cargo has been determined and upon lodgment of customs approved documents. It is only then that it is probable that future economic benefits will flow to the Authority and the amount of revenue can be measured reliably.

Rental income is recognized at the time of billing as per the effective lease agreements. Where lease agreements are under preparation, billing is based on letters of offers, signed and accepted by the tenants. A signed letter of offer is a commitment from the tenant.

Finance income comprises of Interest receivable from bank deposits and investments in securities and is recognized in profit or loss on a time proportion basis using the effective interest rate.

(b)Property, Plant and Equipment

All categories of property, plantand equipment are initially recognized at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure directly attributable to the acquisition of the assets. Computer software, including the operating system that is an integral part of the related hardware is capitalized as part of the computer equipment. Freehold land/buildings/plant and machinery/furniture and equipment/computers, copiers and faxes/motor vehicles are subsequently carried at a revalued amount, based on valuations by external independent valuers, less accumulated depreciation and accumulated impairment losses. All items in an asset category are re-valued every 5 years.

Land & Buildings were last revalued in 2009 while equipment were last revalued in 2014. The Authority contracted a consultant (M/s Sec & M Co. Ltd) to carry out revaluation of the Land, Buildings, Intangibles and Equipment. The exercise commenced in the current financial year and is still ongoing.

Subsequent costs are included in the assets carrying amount or recognized 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. Repairs and maintenance expenses are charged to the profit or loss account in the year in which they are incurred.

Increases in the carrying amount arising on revaluation are recognized in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognized in other comprehensive income.

All other decreases are charged to the Statement of Comprehensive Income. Annually, the difference between depreciation charge based on the valued carrying amount of the asset charged to the Statement of Comprehensive Income and depreciation based on the asset's original cost is transferred from the revaluation surplus reserve to retained earnings.

(c) Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is calculated using the straight line method to write down the cost or the revalued amount of each asset to its residual value over its estimated useful life using the following annual rates;

	RATE
Dredging/reclamation	2.5%
Building commercial and non-commercial	2.5%
Rail lines	2.5%
Roads and Bridges	2.5%
Quays/wharves	2.5%
Berthing Tugs	5%
Pilot & Mooring Boats and Navigational Aids	10%
Cranes	10%
Forklifts/Reach takers	20%
Tractors/Trailers	20%
Vehicles	20%
Equipment	20%
Furniture	20%
Data processing equipment	33.33%
Software/ Intangibles	33.33%

Depreciation is charged from the date of asset recognition and ceases on the date of asset disposal.

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

Depreciation and Impairment of Property, Plant and Equipment

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation surplus reserve relating to that asset are transferred to retained earnings.

(d)Impairment of non-financial assets

Non-financial assets that are carried at amortized cost are reviewed at the end of each reporting period for any indication that an asset may be impaired.

If any such indication exists, an impairment loss is recognized 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.

(e)Intangible Assets

Intangible assets comprise purchased computer software licenses and other software, which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

(f) Amortization and impairment of intangible assets

Amortization is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

(g)Assets Held for Sale

Non-current assets held for sale (or disposal) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at Net Book Value.

(h)Leased Property

Standalone properties for which lease rentals are received are treated in the Statement of Financial Position according to the nature of the asset.

(i) Retirement Benefits

The Authority operates a defined benefit and defined contribution plans for her eligible employees. The Authority is running the two schemes in parallel with intention of facing out the defined benefit scheme in the long run.

The defined benefit scheme was closed effectively on 31st December 2012 to new entrants and future accrual of benefits for members below age 45 as at 31st December 2011 and also those above age 45 who opted to accrue their future service benefits in the new defined contribution scheme.

In addition, the Authority's makes contributions to the Social Security Fund for employees other than those covered under the retirement benefit scheme and those in other countries of operation, which are statutory, defined. KPA's obligations under these schemes are limited to specific contributions as legislated from time to time.

Defined Benefit

The Scheme is established and governed by a trust deed with effect from 1 January 1998. The schemes is administered by Zamara Actuaries, Administrators and Consultants Ltd. while Britam Asset Manager (K) Ltd, African Alliance (K) Ltd, Investment Bank Ltd and Stanlib (K) Ltd provides the Scheme with fund management services. The KPA Board during the 333rd board meeting approved the amended definition of the pensionable salary in compliance to the Treasury Circular no. 18 of 2010 to be the basic salary with an effective date of January 2018. Employees contribute to the fund at the rate of 7.5% of their respective basic salary while the employer's current contribution rate is 14.7% of the basic salary.

KPA recognizes actuarial gains and deficit in its books of accounts whenever an actuarial valuation of the scheme is done. Actuarial gains are recognized as non-current asset (excess of accrued scheme assets less liabilities) while deficits are recognized as long term liabilities. Where there is a deficit, KPA increases its contribution to the scheme to offset the actuarial deficit. Where there is a gain, KPA stops payment of additional contributions to the scheme.

The scheme is assessed annually by independent actuaries using the actuarial assumptions adopted. The valuation method used is known as the "Attained Age Method". Under this method, calculations are based on the contribution rate required to meet the cost of all future benefits for members using their age and accrued past services at the valuation date and based on projected earnings at retirement or earlier exit.

As at reporting date of 30 June 2018, the scheme had an actuarial deficit of Kshs 1,767.5 million (Kshs 2,980 million surplus FY 2016/17) and the level of funding (the ratio of the value of the Assets to the past service liability) was 93.5% (112.9%; FY 2016/17) below the statutory minimum solvency standard of 100%.

Defined Contribution

The Authority started a defined contribution scheme for her employees who were below the age of 45 as at 31st December 2012. The employees contribute 10% of their basic salary while the employer contributes 20% of the employee's basic salary.

The employer's contribution is charged to the Statement of Comprehensive Income for the period it relates. Both the employee and employer contribution are paid to an independent scheme which manages the resources pooled. Employees will benefit from the employer's contributions on meeting specific criteria set out in the pension scheme trust deed.

The employer's contributions payable for DC scheme of Kshs 1.009 Billion (FY 2016/2017: Kshs. 955 Million) have been recognized in the Statement of Profit and Loss and Other Comprehensive Income.

(j) Inventories

Inventories are stated at cost. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on first-in first-out (FIFO) basis. The Authority has a policy of stocking consumable strategic spare parts for a line of operational equipment. The spares are included in the inventory as of the Statement of Financial Position date.

The continued implementation of Just in Time management system has also led to control in the fuel, oil and lubricants, Motor Vehicle spare parts, Stationery and General stores and Medicines stores.

(k)Trade and other receivables

Trade receivables are stated at their nominal value and reduced by appropriate allowances for estimated irrecoverable amounts.

Objective evidence of impairment of the receivables is when there is significant financial difficulty of the counterparty or when there is a default or delinquency in payment according to agreed terms. When a trade receivable is considered uncollectible, it is written off against the Statement of Profit and Loss and Other Comprehensive income while adjusting the impairment provision.

(i) Financial Instruments

Financial instruments are tradeable assets of any kind. They can include cash evidence or an ownership interest in an entity or a contract or right to receive or deliver cash or another financial instrument.

In finance, a derivative is a contract that derives its value from the performance of an underlying asset. Non-derivatives mean that the loan/receivables do not derive their values from the performance of KPA. They have fixed or determined payments.

Classification

The authority classifies its financial instruments into the following categories;

Financial assets and financial liabilities carried at fair value through profit or loss, which comprise of financial assets and financial liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term or to generate short-term profit- taking (and/or:) Financial assets and financial liabilities carried at fair value through profit or loss, which comprise financial assets or financial liabilities designated by the Authority at fair value through profit or loss and which are managed and their performance evaluated on a fair value basis in accordance with the Authority's investment strategy.

Held-to-maturity investments, which comprise non-derivative financial assets with fixed or determinable payments and fixed maturity that the Authority has a positive intention and ability to hold to maturity.

Loans and receivables, which comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and exclude assets which the entity intends to sell immediately or in the near term or those which the entity upon initial recognition designates as at fair value through profit or loss or as available-for-sale financial assets.

Financial liabilities, which comprise all financial liabilities except financial liabilities carried at fair value through profit or loss.

Recognition and Measurement

Financial Assets:

All financial assets are recognized initially using the trade date accounting which is the date the Authority commits itself to the purchase or sale.

Financial assets carried at fair value through profit or loss are initially recognized at fair value and the transaction costs are expensed in the Statement of Comprehensive Income. All other categories of financial assets are recorded at the fair value of the consideration given plus the transaction costs.

Amortized cost is the amount at which the financial asset or liability is measured on initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and minus any reduction for impairment or un-collectability.

Fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. The corporation assesses at each Statement of Financial Position date whether there is objective evidence that a financial asset is impaired. If any such evidence exists, an impairment loss is recognized. Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Held-to-Maturity Investments and Loans and Receivables

In the case of the held-to-maturity investments and loans and receivables, the recoverable amount is the present value of the expected future cash flows, discounted using the asset's effective interest rate.

Changes in fair value of financial assets at 'fair value' through profit or loss are recognized in the Statement of Comprehensive Income.

Changes in the carrying values and impairment losses of held-to-maturity investments and loans and receivables are recognized in the Statement of Comprehensive Income. Trade and other receivables not collectible are written off against the related provision. Subsequent recoveries of amounts previously written off are credited to the Statement of Comprehensive Income in the year of recovery.

Financial Liabilities

All financial liabilities are recognized initially at fair value of the consideration given plus the transaction cost with the exception of financial liabilities carried at fair value through profit and loss, which are initially recognized at fair value and the transaction costs are expensed in the Statement of Comprehensive Income.

Subsequently, all financial liabilities are carried at amortized cost using the effective interest method except for financial liabilities through profit or loss which are carried at fair value.

• Presentation

Financial assets are classified as non-current assets and are carried at fair value at the Statement of Financial Position date, with the exception of those which the directors have the express intention of holding for less than 12 months from the Statement of Financial Position date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

Financial liabilities are classified as non-current except financial liabilities at fair value through profit or loss, those expected to be settled in the Authority's normal operating cycle, those payable or expected to be paid within 12 months of the Statement of Financial Position date and those which the Authority does not have an unconditional right to defer settlement for at least 12 months after the Statement of Financial Position date.

• De-recognition

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or the Authority has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognized only when the obligation specified in the contract is discharged or cancelled or expire.

• Offsetting

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liabilities simultaneously.

(m)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 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 various commercial banks at the end of the financial year.

(n)Borrowing

Interest bearing bank loans are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

(o)Borrowing Costs

Borrowing costs that are attributable to acquisition, construction or production of a qualifying asset are capitalized as part of the asset. The costs refer to all costs incurred in the acquisition and management of the borrowed funds during the qualifying asset construction. In the case of general borrowings, the borrowing cost is charged to the Statement of Comprehensive income.

Capitalization of borrowing costs ceases when all activities necessary to prepare the qualifying asset for its intended use are complete. All other borrowing costs are recognized in the profit or loss in the year in which they are incurred.

(p)Trade and other payables

Trade and other payables are non-interest bearing and are carried at cost, which is consideration to be paid in future in respect of goods and services supplied, whether billed to the Authority or not.

(q)Taxation

Income Tax

Income tax expense is the aggregate amount charged/ (credited) in respect of current tax and deferred tax in determining the profit or loss for the year. Tax is recognized in the Statement of Comprehensive Income except when it relates to items recognized in other comprehensive income, in which case it is also recognized in other comprehensive income, or to items recognized directly in equity, in which case it is also recognized directly in equity.

Current Tax

Current income tax is the amount of income tax payable on the taxable profit for the year, and any adjustment to tax payable in respect of prior years, determined in accordance with the Kenyan Income Tax Act.

Deferred Tax

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilized. Recognized and unrecognized deferred tax assets are reassessed at the end of each reporting period. The recognized amount is adjusted to reflect the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

(r)Translation of Foreign Currencies

On initial recognition, all transactions are recorded in the functional, which is Kenya Shillings.

Transactions in foreign currencies during the year are converted into the functional currency using the exchange rate prevailing at the transaction date. Monetary assets and liabilities at the Statement of Financial Position date denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing as at that date. The resulting foreign exchange gains and losses from the settlement of such transactions and from year-end translation are recognized on a net basis in the Statement of Comprehensive Income in the year in which they arise.

(s)Short term employee benefits

The estimated monetary liability for employees' accrued at the Statement of Financial Position date is recognized as an employment cost accrual. Gratuity earned at Statement of Financial Position date is accrued and recognized as an employee cost in the Statement of Comprehensive income. The Authority does not accrue employee leave entitlements where they are deemed immaterial.

(t)Dividends

In line with the Dividend policy, directors recommend dividend payout of 7.5% of profit after tax to the National Treasury. Dividend payment is pegged on financial statements being duly audited and certified by the Office of the Auditor General. Dividends are charged to equity in the period in which they are paid.

(u)Grants from donors and national government

The grants are received inform of direct payments to suppliers or contractors for the construction of specific capital projects of the Authority. The grants are recognized in the Statement of Financial Position and realized in the Statement of Profit and Loss and Other Comprehensive income over the useful life of the assets.

(v)Comparative figures

Where necessary the comparative figures for the previous financial year 2016/17 have been amended to conform to changes in presentation.

(w)Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended 30 June 2018.

5. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and the associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances that prevailed during the period. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Critical estimates and assumptions are applied in the preparation of the financial statements.

In the process of applying the Authority's accounting policies, management has made judgment in determining;

- The depreciation rates and impairment of property, plant and equipment,
- The amortization of Intangible assets
- The impairment of long term investments in Kenya National Shipping Line, Consolidated Bank, deposits in Chase Bank Ltd in receivership (CBLR) and Kenya Ferry Services,
- The recognition of Retirement Benefit Asset/Liability,
- Impairment of Trade receivables,
- Provisions for obsolete inventory,
- Deferred tax liabilities

Long Term Deposits

Chase Bank Kenya, was closed under receivership on 7 April 2016 by the Central Bank of Kenya (CBK) and was reopened on 27 April 2016 under a receiver manager. Cash deposits of Kshs 3,031 million held by the bank, were reclassified to long term investments in the FY2016/17. No interest has been accrued on these deposits since April 2016.

During the year CBK had indicated that SBM Bank (Kenya) Ltd would take over 75% of deposits of CBLR while 25% of deposits was awaiting further resolution by Kenya deposits Insurance corporation (KDIC). The Authority Board deemed it prudent to provide for an impairment of 25% of the deposits held in reporting year.

On 6 July 2018, the CBK announced through gazette notice no. 6833 that SBM Bank (Kenya) had commenced the acquisition of certain assets and the assumption of certain liabilities of CBLR, in line with the announcement of 17 April 2018. It also announced that this process would be completed on 17 August 2018.

Revenue Recognition

As stated in Note 4 (a) on Sales of services, the Authority only bills once the consignee for the cargo has been determined and upon lodgment of customs approved documents. It is only then that it is probable that future economic benefits will flow to the Authority and the amount of revenue can be measured reliably.

On rental income, where lease agreements are under preparation, billing is based on letters of offers, signed and accepted by the tenants. A signed letter of offer is a commitment from the tenant.

6. OPERATING REVENUE

	2017/2018	2016/2017
	Kshs '000	Kshs '000
Pilotage	615,289	552,976
Tug Services Dues	1,778,994	1,591,259
Mooring	336,546	304,839
Navigational Dues	265,026	246,920
Port Dues	595,349	548,514
Dockage	731,436	562,640
Fresh Water - Normal	5,874	3,963
Laid Up Vessels	3,167	191
Security	160,068	148,623
Stevedoring	13,695,122	13,043,627
Hire of Labor/Equipment	231,391	195,219
Handling of Empty Containers	2,119,546	2,097,141
Handling of Full Containers	3,886	0
Shore handling	4,692,763	4,774,186
Re Marshaling Charges	574,813	317,424
Container Stripping/Stuffing	1,615	888
Verification Charges	23,977	7,389
Storage of General Cargo	546,649	225,084
Storage - Empty Containers	152,133	109,931
Storage-Full Containers	2,630,174	1,728,430
Jetty Fees	1,591	949
Licenses	103,349	118,021
Other Revenue	125,244	69,218
Wharfage	13,284,608	12,910,378
Sale of Fresh Water	340	463
Other Miscellaneous Revenue	59,570	45,404
TOTAL	**42,738,520**	**39,603,677**

The Port has continued to handle improved throughput registering a growth of 6% on last year performance.

The increase in container traffic and heavy dry bulk imports as a result of the maize and wheat shortage in the country all contributed to the growth. Ships that called the port also increased to 1,696 from 1,661 in FY2016/17.

7. OTHER INCOME:

	2017/2018 Kshs '000	2016/2017 Kshs '000
Rent & Rates Receivable	251,383	208,206
Bandari College	31,392	71,817
Recovery From Housed Employees	111,535	109,192
Sale of Passes	115,049	98,448
Sale of Books And Documents	185	386
Sundry Income	380,961	105,023
Interest on Staff Loans	518	552
TOTAL	**891,023**	**593,624**

Included in Sundry Income is an amount USD 3,250,000 (Kshs 328,737,500) due to the Authority for salvage operations MV Theresa Arctic and was accrued under accrued income (note 22 (b).

ADMINISTRATIVE EXPENSES:

	2017/2018 Kshs '000	2016/2017 Kshs '000
Telephone/Telex/Fax Services	8,377	10,734
Water Supply Services	149,511	111,584
City & Municipal Council Rates	55,329	48,838
Office Rental-Kampala	8,784	7,481
Library & Archives	8,703	13,362
Nursery Schools	4,641	2,671
Laundry	3,298	3,764
Provisions & Catering	40,098	37,758
Cleaning of Carpets & Curtains	435	454
Directors Allowances	38,589	58,745
Furniture & Equipment	10,161	5,826
Printing & Stationery	76,909	67,304
Postage & Courier Services	4,624	5,824
Office Incidentals & Consumables	29,491	26,124
Entertainment Allowance	7,639	6,768
Club Membership Fees	1,797	2,065
Police Services	1,244	7,318
Security Guards Services	45,541	45,876
Port Passes	2,756	15,467
Radio Services	0	1,455
Publicity & Advertising	187,259	156,396
Subscriptions & Donations	9,559	20,309
Hire of Commuter Bus Service	139,004	89,214
Agricultural Society of Kenya Shows	23,377	31,112
Sports	134,920	55,091
Welfare	39,310	28,818
Industrial Relations Costs	12,652	14,546
Development Studies	117,895	130,636
Consultant Fees	50,612	22,268
Training	389,605	422,701
Curriculum Development	19,926	25,838

ADMINISTRATIVE EXPENSES CONT'D:

	2017/2018 Kshs '000	2016/2017 Kshs '000
Trade Testing Materials	2,695	1,176
Recruitment Costs	12,490	17,175
Accommodation Costs	412	195
Retirees Expenses	18,158	21,673
Survey Fees	61	2,680
Computer & Network Maintenance	242,194	224,559
Website	0	2,645
Licenses & Computers	710,795	521,230
Insurance Premiums	378,114	301,136
Un-Insured Loss	2,634	1,312
Car Registration & Licenses	274	260
Stock Take Expenses	1,113	941
Corporate Social Responsibility	63,295	29,484
Victuals & Snacks	30,602	19,817
Wajibika	21,040	26,664
Professional Education	44,680	44,547
WHT Imported Services	11,100	0
Audit Fees	8,050	8,050
Bank Charges & Commission	12,928	15,191
Legal Fees	246,816	209,010
Revaluation Fees	20,651	0
TOTAL	**3,450,148**	**2,924,092**

The revaluation fees are associated with the ongoing revaluation exercise being conducted by SEC & M Co. Ltd. valuers.

9. ESTABLISHMENT EXPENSES:

	2017/2018 Kshs '000	2016/2017 Kshs '000
Basic Salary	6,449,691	6,445,391
Overtime	2,688,474	2,295,311
Staff Allowances	1,936,776	1,534,412
Normal Staff Housing	2,607,030	2,393,968
Leased Staff Housing	12,996	3,618
Special Accommodation	47,627	19,103
Duty Travel	323,955	313,855
Leave Travel	227,416	340,662
Motor Mileage	1,542,431	1,433,995
Intern Allowances	4,939	0
Staff Pension-DC	1,008,693	955,075
Staff Pension-DB	118,152	159,210
Staff Gratuity	13,218	9,452
Long Service Awards	2,186	0
Social Security	623	134
Medicines	251,997	223,855

9. ESTABLISHMENT EXPENSES (CONT'D):

	2017/2018	2016/2017
	Kshs '000	Kshs '000
Hospital/Referral Bills	495,416	504,477
First Aid	5,858	6,161
Medical Education Expenses	22,053	8,086
Incentive Scheme	29,607	26,365
TOTAL	**17,789,138**	**16,673,130**

During the year, overtime expenditure increased by 17% from Kshs 2,295 to Kshs 2,688. This was mainly on account of increased operational activities at the container terminal as well as ICD-Nairobi with the advent of SGR operations.

A total of 635 new employees were recruited in the financial year. Special accommodation is related to allowances paid to new recruited staff. In compliance with the Government directive on interns, the Authority took in 101 interns.

In line with the Authority's policy, KPA awarded long serving staff who retired during the year. Medical education expenses relate to EAP activities that took place within the year.

10. OPERATING EXPENSES:

	2017/2018	2016/2017
	Kshs '000	Kshs '000
Operational / Running Supplies	503,881	392,516
Marine Spares	302,581	199,517
Diving & Signaling Equipment	19	2,586
Buoys	2,663	2,584
Flowers & Plants	348	115
Crane Spares	379,545	254,009
Fuel	862,123	427,369
Oils and Lubricants	88,629	65,790
Cleansing Agents	6,857	4,441
Gas Cutting/ Welding Supplies	0	8
Uniforms & Clothing	204,684	322,740
Cleaning Implements/ Detergents	37,821	28,619
Workshop Tools And Equipment	69,283	50,430
Comm./ Equipment Spares	24,249	12,754
Medical Equipment	5,499	3,136
Repairs: Port Infrastructure	1,028,154	956,264
Electricity Services	445,363	299,893
Mobile Plant Spares	259,937	209,266
Electrical Spares	415,088	207,432
Tyres And Tubes	196,083	111,660
Refrigeration/ Air Conditioning	36,710	26,454
Batteries Charges And Clocks	30,105	16,298
TOTAL	**4,899,622**	**3,593,881**

Notes to the financial statements for the year ended 30 June 2018

11. PROPERTY, PLANT & EQUIPMENT

FOR THE YEAR ENDED 30 JUNE 2018

Cost / Valuation	Leasehold Land	Land And Buildings	Equipment, Motor Vehicles And Furniture	Services And Systems	Basic Constructions	Balance As At 30 June, 2018
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Balance as at 01.07.2017	**6,162,840**	**24,360,830**	**31,658,534**	**8,754,324**	**72,870,115**	**143,806,643**
Additions	0	712,550	7,297,741	1,080,683	1,204,403	10,295,377
Disposals	0	0	(285,806)	0	0	(285,806)
Balance as at 30.06.2018	**6,162,840**	**25,073,380**	**38,670,469**	**9,835,007**	**74,074,518**	**153,816,214**
Depreciation						
Balance as at 01.07.2017	**0**	**2,144,555**	**13,268,727**	**1,984,921**	**10,677,986**	**28,076,189**
Eliminated on Disposal	0	0	(252,839)	0	0	(252,839)
Charge for the year	0	424,543	3,601,905	608,298	2,909,836	7,544,582
Balance as at 30.06.2018	**0**	**2,569,098**	**16,617,793**	**2,593,219**	**13,587,822**	**35,367,932**
N.B.V as at 01.07.2017	6,162,840	22,216,275	18,389,807	6,769,403	62,192,129	115,730,454
NBV as at 30.06.2018	**6,162,840**	**22,504,282**	**22,052,676**	**7,241,788**	**60,486,696**	**118,448,282**
W.I.P as at 01.07.2017	0	29,672	687,780	1,234,973	16,021,859	17,974,284
W.I.P as at 30.06.2018	0	50,305	1,955,719	602,854	24,051,557	26,660,435
Sub-Total	**6,162,840**	**22,554,587**	**24,008,395**	**7,844,642**	**84,538,253**	**145,108,717**
Impairment	0	(199,820)	(575)	(617)	(292,933)	(493,945)
Grand Total	**6,162,840**	**22,354,767**	**24,007,820**	**7,844,025**	**84,245,320**	**144,614,772**
Fully depreciated Assets						
Cost	0	22,790	5,012,004	363,946	587,645	5,986,385
Would have been depreciation	0	570	1,002,401	36,395	14,691	1,054,057

*Land Leased out represents parcels owned by the Authority and rented out to other entities for rental payments.

PROPERTY, PLANT & EQUIPMENT

FOR THE YEAR ENDED 30 JUNE 2017

Cost / Valuation	Leasehold Land	Land And Buildings	Equipment, Motor Vehicles And Furniture	Services And Systems	Basic Constructions	Balance As At 30 June,2017
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Balance as at 01.07.2016	**6,162,840**	**24,208,203**	**28,765,404**	**8,453,863**	**71,907,169**	**139,497,479**
Additions	0	152,627	2,950,970	300,461	962,946	4,367,004
Disposals	0	0	(57,840)	0	0	(57,840)
Balance as at 30.06.2017	**6,162,840**	**24,360,830**	**31,658,534**	**8,754,324**	**72,870,115**	**143,806,643**
DEPRECIATION						
Balance as at 01.07.2016	**0**	**1,748,384**	**9,700,509**	**1,413,057**	**7,830,441**	**20,692,391**
Eliminated on Disposal	0	0	(56,526)	0	0	(56,526)
Charge for the year	0	396,171	3,624,744	571,864	2,847,545	7,440,324
Balance as at 30.06.2017	**0**	**2,144,555**	**13,268,727**	**1,984,921**	**10,677,986**	**28,076,189**
N.B.V as at 01.07.2016	6,162,840	22,459,819	19,064,895	7,040,806	64,076,728	118,805,088
NBV as at 30.06.2017	**6,162,840**	**22,216,275**	**18,389,807**	**6,769,403**	**62,192,129**	**115,730,454**
W.I.P as at 01.07.2016	0	117,418	136,296	615,199	3,861,718	4,730,631
W.I.P as at 30.06.2017	0	29,672	687,780	1,234,973	16,021,859	17,974,284
Sub-Total	**6,162,840**	**22,245,947**	**19,077,587**	**8,004,376**	**78,213,988**	**133,704,738**
Impairments	0	(192,954)	(3,350)	0	(99,367)	(295,671)
Grand Total	**6,162,840**	**22,052,993**	**19,074,237**	**8,004,376**	**78,114,621**	**133,409,067**
Fully depreciated Assets						
Cost	0	22,790	3,018,361	89,046	49,501	3,179,698
Would have been depreciation	0	2,272	367,138	4,418	12,375	386,203

LEASED PROPERTY

12. AS AT 30 JUNE 2018

Cost/Valuation	Buildings Kshs '000	Basic Construction Kshs '000	Services and Systems Kshs '000	Bal. as at 30.06.2018 Kshs '000
Balance as at 01.07.2017	83,791	861,503	11,890	957,184
Additions	27,650	52,181	0	79,831
Balance as at 30.06.2018	**111,441**	**913,684**	**11,890**	**1,037,015**
Depreciation:				
Balance as at 01.07.2017	16,550	165,427	2,915	184,892
Charge for the year	2,871	42,689	744	46,304
Balance as at 30.06.2018	**19,421**	**208,116**	**3,659**	**231,196**
N.B.V as at 01.07.2017	67,241	696,076	8,975	772,292
N.B.V as at 30.06.2018	**92,020**	**705,568**	**8,231**	**805,819**

AS AT 30 JUNE 2017

Cost/Valuation	Buildings Kshs '000	Basic Construction Kshs '000	Services and Systems Kshs '000	Bal. as at 30.06.2017 Kshs '000
Balance as at 01.07.2016	**83,791**	**861,503**	**11,890**	**957,184**
Balance as at 30.06.2017	**83,791**	**861,503**	**11,890**	**957,184**
Depreciation:				
Balance as at 01.07.2016	14,454	125,787	2,171	142,412
Charge for the year	2,096	39,640	744	42,480
Balance as at 30.06.2017	**16,550**	**165,427**	**2,915**	**184,892**
N.B.V as at 01.07.2016	69,337	735,716	9,719	814,772
N.B.V as at 30.06.2017	**67,241**	**696,076**	**8,975**	**772,292**

13. INTANGIBLE ASSETS:

	2017/2018 Kshs '000	2016/2017 Kshs '000
Cost:		
Balance as at 1 July	1,996,011	1,806,959
Additions	**256,127**	**189,052**
Balance as at 30 June	2,252,138	1,996,011
Amortization:		
Balance as at 1 July	1,508,878	1,492,626
Charge for the year	67,877	16,252
Balance as at 30 June	1,576,755	1,508,878
Net Book Values as at 30 June	**675,383**	**487,133**
Fully amortized Assets:		
Cost	894,904	1,299,866
Would have been Depreciation	295,320	10,584

14. FINANCE INCOME:

	2017/2018	2016/2017
	Kshs '000	Kshs '000
Bank Interest Earnings	1,728,950	1,239,986
Write-back of Stock	0	206
Bad Debts recovered	0	7,109
TOTAL	**1,728,950**	**1,247,301**

15. FINANCE COSTS:

	2017/2018	2016/2017
	Kshs '000	Kshs '000
Interest Charges- Long Term Loans	48,466	41,759
Write-Off – Other Debtors	2,023	0
Write-Off – Stock	35,446	0
Price Difference Loss/(Gain)	2,475	1,631
Discounts	81,218	96,833
Compensation Cargo Claims	996	2,014
TOTAL	**170,624**	**142,237**

A provision for stock write-off has been provided for as stated in note 21. The write-off of other debtors comprises staff related debts approved for write-off by the Board in its 336th Regular meeting held in December 2017.

16. IMPAIRMENT LOSSES:

	2017/2018	2016/2017
	Kshs '000	Kshs '000
Prov. Impairment Loss Debtors	81,270	109,122
Prov. Impairment Trade Loss on Investments	757,852	0
Prov. Impairment Loss on PPE	198,273	2,791
TOTAL	**1,037,395**	**111,913**

During the 336th Regular Board meeting held in December 2017, the Board approved a provision of 25% on Chase Bank deposits. Provision for impairments on PPE relates to assets demolished to pave way for the construction of the SGR Port relief line in Mombasa (Phase II), from berth No. 1 to berth No. 11. Impairement of Kshs 83 million for consultancy for the cruise ship project was reversed.

17. OTHER GAINS/(LOSSES)

		2017/2018	2016/2017
	Note	Kshs '000	Kshs '000
Gain/(Loss) on Disposal of Non-Financial Assets	17(a)	(5,490)	4,681
Inventory difference		4,337	0
Realized exchange Gain/(Loss)		(43,171)	123,268
TOTAL		**(44,324)**	**127,949**

17A. GAIN/(LOSS) ON DISPOSAL OF NON-FINANCIAL ASSETS:

	2017/2018 Kshs '000	2016/2017 Kshs '000
Profit/(Loss) on sale of fixed assets	(13,951)	3,999
Profit on sale of surveyed stock	8,461	682
TOTAL	**(5,490)**	**4,681**

18. INCOME TAX EXPENSE/(CREDIT)

	2017/2018 Kshs '000	2016/2017 Kshs '000
(a) Current taxation		
Current taxation based on the adjusted profit for the year at 30%	2,269,066	2,837,301
Current year deferred tax charge	1,157,676	1,091,147
Tax charge for the year	**3,426,742**	**3,928,448**
(b) Reconciliation of tax expense/(credit) to the expected tax based on accounting profit		
Profit before taxation	**10,308,477**	**10,628,242**
Tax at the applicable tax rate of 30%	3,092,543	3,188,473
Tax effects of expenses not deductible for tax purposes	287,921	344,095
Tax effects of income not taxable	(159,040)	(136,369)
Tax effects of excess capital allowances over depreciation/amortization	(952,359)	(558,898)
Current taxation based on adjusted profit	**2,269,066**	**2,837,301**

19. NON-CURRENT ASSETS HELD FOR SALE

Item of non-current assets held for sale as 30th June 2018 was one tractor with carrying amounts of Kshs. 399,625.

	2017/2018 Kshs '000	2016/2017 Kshs '000
Pick Ups 4x2 (11/4 Tonnes 15R KAW 595Z)	0	534
G section tractor TR 55	400	400
G section tractor TR 56	0	290
Total	**400**	**1,224**

20. LONG TERM INVESTMENTS

	Note	2017/2018 Kshs '000	2016/2017 Kshs '000
Fixed Deposits:	20(a)		
Housing Scheme Backup Funds- HFCK		334,832	340,539
Fixed Deposits- HFCK		189,043	169,138
KCB Mortgage		398,457	383,764
Eco-Bank Kenya Ltd		20,010	19,670
Subtotal		**942,342**	**913,111**

LONG TERM INVESTMENTS (CONT'D)	Note	2017/2018 Kshs '000	2016/2017 Kshs '000
EQUITIES:	20(b)		
Kenya National Shipping Line		54,346	54,346
Kenya Ferry Services		100,000	100,000
Impairment of Trade Investment		(154,346)	(154,346)
Consolidated Bank of Kenya		29,100	29,100
Subtotal		**29,100**	**29,100**
OTHER INVESTMENT:	20(c)		
Chase bank Deposits		3,031,407	3,031,407
Impairment		(757,852)	0
Subtotal		**2,273,555**	**3,031,407**
TOTAL		**3,244,997**	**3,973,618**

(a) Fixed Deposits

Details and movement of the fixed deposits are shown below;

FIXED DEPOSITS	Balance 1 July 2017 Kshs '000	Additions Kshs '000	Interest Kshs '000	Inter Account Transfer Kshs '000	Balance 30 June 2018 Kshs '000
Housing Scheme Backup- HFCK	340,539	48,500	5,676	(59,883)	334,832
Fixed Deposits- HFCK	169,138	59,883	8,522	(48,500)	189,043
KCB Mortgage	383,764	0	14,693	0	398,457
Eco-Bank Kenya Ltd	19,670	0	340	0	20,010
TOTAL	**913,111**	**108,383**	**29,231**	**(108,383)**	**942,342**

i. Funds invested with Housing Finance amounted to Kshs 524 million out of which Kshs 334 million is held as lien on loans advanced to staff under the HOMS and earns interest at 2% pa. The balance of Kshs 189 million is held in a fixed deposit account and earns interest of 7% pa.

ii. Funds invested with Kenya Commercial Bank amounting to Kshs 398 million is held as security on loans advanced to staff under HOMS. They earn interest at 2% p.a.

iii. Funds invested with ECO-Bank amounting to Kshs 20 million are held as security on loans advanced to staff under HOMS. They earn interest at 2% p.a.

(b) Equities:

Details of the equities are shown below;

Entities	Direct shareholding	Effective shareholding	Nominal value of shares	Value of shares less impairment 2017/2018	Value of shares less impairment 2016/2017
	%	%	Kshs '000	Kshs '000	Kshs '000
Kenya National Shipping Line	45%	0%*	54,346	0	0
Kenya Ferry Services	20%	0%*	100,000	0	0
Consolidated Bank of Kenya	2.60%	2.60%	29,100	29,100	29,100
TOTAL				**29,100**	**29,100**

*The effective shareholding is 0% because the investments were fully impaired.

(c) Other Investment:

	Balance 1 July 2017	Impairment	Balance 30 June 2018
	Kshs '000	Kshs '000	Kshs '000
Chase Bank Investment	3,031,407	(757,852)	2,273,555
TOTAL	**3,031,407**	**(757,852)**	**2,273,555**

As stated under note 5 other investment comprises of deposits in Chase Bank Ltd. The bank was placed under receivership on April 2016 by Central Bank of Kenya, the Authority's Board made a 25% impairment provision on the deposits during the 336th regular meeting held in December 2017. SBM Bank (Kenya) Ltd is expected to take 75% of the moratorium deposits while 25% is awaiting further resolution by KDIC. The Authority is optimistic that the investment will be recovered. The investment was classified as a Long-term investment in the prior financial year.

21. INVENTORIES

	2017/2018	2016/2017
	Kshs '000	Kshs '000
Engineering stores	368,622	333,119
Fuel, oil and lubricants	3,349	4,155
Motor vehicle spare parts	5,972	7,058
Stationery and general stores	34,702	28,665
Medicines	30,766	37,594
Sub-Total	**443,411**	**410,591**
Provision for Write-off	(35,446)	0
Totals	**407,965**	**410,591**

INVENTORIES (CONT'D)

Inventories are stated at cost. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on first-in first-out (FIFO) basis. The Authority has a policy of stocking strategic consumable spare parts for a line of operational equipment. The spares are included in the inventory as of the Statement of Financial Position date. The continued implementation of Just in Time management system has also led to a decrease in the Fuel, oil and lubricants, Motor vehicle spare parts, Stationery and general stores and Medicines stores.

A Provision for Obsolete Stock was been made against Obsolete Stock identified by the relevant Departmental Users and recommended by the Board to Cabinet Secretary for write-off.

22. RECEIVABLES & PREPAYMENTS

TRADE RECEIVABLES	Note	2017/2018 Kshs '000	2016/2017 Kshs '000
Trade Cargo		2,244,957	1,658,748
Trade Marine		433,371	439,803
Rental		90,840	66,997
Subtotals	**22(a)**	**2,769,168**	**2,165,548**
Less; Provision For Impairment		(1,054,741)	(973,471)
Subtotals		**1,714,427**	**1,192,077**
Kenya National Shipping Line		1,507	1,507
Mot (Treasury/Dredgco)		287,231	287,231
Impairment of Other Debtors		(288,738)	(288,738)
Subtotals		**0**	**0**
Other Receivables:			
Staff Advances		17,767	25,375
Advance Imprest & Subsistence		81,459	75,810
Advance Creditors	22(b)	9,128,593	5,119,840
Deposit Others		14,762	17,194
Valuation Adjustment		213,099	369,567
Railways Debtors		65,338	0
Prepayments & Accrued Income	22(c)	721,481	261,269
Tax Recoverable	22(d)	2,088,994	974,369
VAT in		178,605	642,368
Others		275,832	170,743
Subtotals		**12,785,930**	**7,656,535**
TOTAL		**14,500,357**	**8,848,612**

Receivables and prepayment increased by 64% to Kshs 14,500 million (Kshs 8,849 million; FY2016/17). The increase is mainly attributed to advances payment on account of assets still under construction including Harbour Mobile Cranes, Tug boat being manufactured for which 1st instalment has been paid. Tax recoverable among others also increased.

RECEIVABLES & PREPAYMENTS (CONT'D)

a. As at June 30, the ageing analysis of the Trade and Rental receivables was as follows;

Period	2017/2018 Kshs '000	2016/2017 Kshs '000
From 0 To 90	1,484,128	1,007,180
From 91 To 120	59,591	40,238
From 121 To 150	44,468	26,891
From 151 To 180	41,333	10,025
From 181 To 365	175,377	190,998
1 to 2 Years	156,044	129,475
Over 2 years	808,227	760,741
Total	**2,769,168**	**2,165,548**

In compliance with the Authority's impairment policy and IFRSs, all overdue debts have been impaired. Debts over 2 years old have been impaired 100%.

b. Advance Creditors:

	2017/2018 Kshs '000	2016/2017 Kshs '000
Advance Lamu Creditors	2,703,552	3,119,979
Advance Other Creditors	3,146,725	1,999,861
2nd Terminal Supplier	3,278,316	0
TOTAL	**9,128,593**	**5,119,840**

c. Prepayments & Accrued Income

	2017/2018 Kshs '000	2016/2017 Kshs '000
Accrued income	333,001	53,460
Rents & rates – prepaid	27,041	30,962
Insurance – prepaid	181,174	125,127
Prepayments Others	180,265	51,720
TOTAL	**721,481**	**261,269**

Included in accrued income is Kshs 328,737,500 due to the Authority for salvage operations of MV Theresa Arctic. The vessel which run aground off Kilifi in the Indian Ocean was successfully refloated and piloted to Mombasa port

d. Tax Recoverable:

	2017/2018 Kshs '000	2016/2017 Kshs '000
Balance as at 01 July	974,369	63,571
Total Output VAT	(2,269,842)	(2,006,063)
Total Input VAT	3,384,467	2,916,861
TOTAL	**2,088,994**	**974,369**

23. TAX PAYABLE/(PAID IN ADVANCE)

	2017/2018	2016/2017
	Kshs '000	Kshs '000
Balance as at 1st July	**231,823**	**(814,510)**
Income tax charge for the year	2,269,066	2,837,301
Income tax paid during the year	(3,141,780)	(1,790,968)
Final Tax paid	(320,534)	0
Overpaid tax utilized	88,209	0
TOTAL	**(873,216)**	**231,823**

24. CASH AND CASH EQUIVALENTS

	Note	2017/2018	2016/2017
		Kshs '000	Kshs '000
Short Term Deposits	24 (a)	17,988,504	14,928,395
Bank and Cash Balances	24 (b)	788,363	693,457
TOTAL		**18,776,867**	**15,621,852**

a. Short Term Deposits:

	2017/2018	2016/2017
	Kshs '000	Kshs '000
Citibank T/Bills 10.16%	17,442,906	14,506,337
Discount on Treasury Bills	545,598	422,058
TOTAL	**17,988,504**	**14,928,395**

b. Bank and Cash Balances

Name of Bank	2017/2018	2016/2017
	Kshs '000	Kshs '000
National Bank of Kenya	4,539	24,461
Kenya Commercial Bank	(36)	172
Citibank N,A	672,856	563,877
Equity	89,639	96,517
Stanbic Bank	1,493	3,507
Petty Cash	3,224	3,191
Cash in Transit	(52)	1,718
Collections	500	14
Safaricom Mpesa	16,200	0
TOTAL	**788,363**	**693,457**

During the year our system was integrated to safaricom payment solution Lipa na Mpesa. This cashless and 24/7 realtime payment processing solution was rolled out to our customers to enhance efficiency in cargo delivery. The payments targeted are payments that are Kshs. 70,000/= and below because of the Central Bank of Kenya currency capping on this mode of payment.

CASH AND CASH EQUIVALENTS (CONT'D)

Details of cash and cash equivalents are as follows;

Financial Institution	Bank Account Nos.	Curr.	2017/2018	2016/2017
i) Current account			**Kshs '000**	**Kshs '000**
National Bank of Kenya	1003057307400	KSHS	2,949	21,947
	2003057307400	USD	190	2,178
	1003000909000	KSHS	1,400	336
Kenya Commercial Bank	1107638127	KSHS	(1)	0
	1146962908	USD	(33)	172
	6690361829	BIF	(1)	0
	6690361837	USD	(1)	0
Citibank N,A	300046401	KSHS	208,214	228,909
	300046428	USD	464,642	334,968
Equity	1560267794795	KSHS	43,812	17,518
	1560261552619	USD	45,826	78,941
	4002200349395	RWF	1	58
Stanbic bank	9030008175933	USD	1,778	3,308
	9030005614383	UGX	(285)	199
Sub-total			**768,491**	**688,534**
ii) Others;				
Cash in Transit		KSHS	(52)	1,718
Collections		KSHS	500	14
Petty Cash		KSHS	3,224	3,191
Safaricom Mpesa		KSHS	16,200	0
Sub-Total			19,872	4,923
iii) Fixed Deposit Account				
Treasury Bills		KSHS	17,442,906	14,506,337
Sub-Total			**17,442,906**	**14,506,337**
v) Discount on Treasury Bills		KSHS	**545,598**	**422,058**
Grand-Total		**KSHS**	**18,776,867**	**15,621,852**

25. MOVEMENT IN REVALUATION RESERVES

	2017/2018	2016/2017
	Kshs '000	**Kshs '000**
Opening Balance	**43,296,547**	**48,084,237**
Transfers to General Reserves:		
Assets Disposals	(7,166)	(20,161)
Depreciation as a result of Revaluation:		
Buildings	(159,295)	(159,295)
Plant & Equipment	(3,248,176)	(4,608,234)
Closing Balance	**39,881,910**	**43,296,547**

MOVEMENT IN REVALUATION RESERVES (CONT'D)

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity which is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

26. MOVEMENT IN GENERAL RESERVES

	2017/2018	2016/2017
	Kshs '000	Kshs '000
Opening Balance	**73,813,608**	**61,741,226**
Adjustments for:		
Profit After Tax	6,881,737	6,699,794
Revaluation Effects	3,414,637	4,787,690
Pension DB Valuation	(4,747,674)	(827,826)
Unrealized Foreign Exchange Loss	(168,800)	322
TMEA Adjustments	0	137,369
Dividends Paid	(1,000,087)	(295,406)
JICA Loan Valuation Effects - Gain	233,121	1,570,439
Closing Balance	**78,426,542**	**73,813,608**

27. GRANTS

Grants represent funds provided by donors, either directly or via a sponsor for the purposes of financing specific capital projects of the Authority. The grants are in inform of assets and were received/realized from Trade Mark East Africa (TMEA) and transferred to the General reserves. Such assets include acquisition of 4 No. Eco-hoppers, 1 No. MHC and completion of Eco Terracing.

TMEA is funding other ongoing projects which include Rehabilitation of G-Section and replacement of asbestos roofing among others.

	1/7/2017	Received 2017/18	Cumulative to 30/6/2018
	Kshs '000	Kshs '000	Kshs '000
Trade Mark East Africa	581,153	1,948,080	2,529,233
SGR	0	2,514,819	2,514,819
TOTAL	**581,153**	**4,462,899**	**5,044,052**

28. GOVERNMENT PROJECT FUNDS

Funds represent monies given to the Authority for specific government projects not in direct control of the Authority. During the year, the following funds were received/ transferred:

	1/7/2017	Received 2017/18	Cumulative to 30/6/2018
	Kshs '000	Kshs '000	Kshs '000
Infrastructure Kisumu Port	50,000	0	50,000
Lamu Port Development	12,991,039	3,171,000	16,162,039
TOTAL	**13,041,039**	**3,171,000**	**16,212,039**

During the year Kenya Ports Authority received Kshs 3.171 Billion from Ministry of Transport & Infrastructure, Housing, Urban Development and Public Works for the Lamu Port development project.

GOVERNMENT PROJECT FUNDS (CONT'D)

LAMU PORT PROJECT
STATEMENT OF FINANCIAL POSITION
AS AT 30/06/2018

Non-Current Assets	**Kshs'000**	**Kshs'000**
Works in progress		**19,037,371**
Current Assets(Advance Payments)		
Yooshin	8,363	
China Communication Construction Co.	1,978,843	1,987,206
		21,024,577
Financed By:		
Government funds	16,162,039	
KPA funds*	1,814,318	17,976,357
Current Liabilities:		3,048,220
		21,024,577

*The Authority contributed Kshs 1.8 Billion towards the Lamu port project.

29. BORROWINGS:
AS AT 30 JUNE 2018

							Closing Balances 30/06/2018		
	Opening Balances 01/07/2017		**Repayments**	**Forex Gain**		**Valuation Gain**			**Non-Current**
Loans	**Kshs '000**	**Disbursements Kshs '000**	**Principal Kshs'000**	**Kshs'000**	**Interest Kshs'000**	**Kshs'000**	**Total Kshs'000**	**Current Kshs'000**	**Kshs'000**
JICA-1	24,359,446	0	(794,496)	(10,116)	43,598	(216,324)	23,338,510	791,109	22,547,401
JICA-2	617,316	6,346,055	0	0	0	(16,796)	6,946,575	0	6,946,575
TOTAL	**24,976,762**	**6,346,055**	**(794,496)**	**(10,116)**	**43,598**	**(233,120)**	**30,285,085**	**791,109**	**29,493,976**

As at 30 June 2017

Loans	**Opening Balances 01/07/2016**	**Disbursements**	**Forex**	**Closing Balances 30/06/2017**			
				Interest	**Total**	**Current**	**Non-Current**
	Kshs '000	**Kshs '000**	**Kshs '000**	**Kshs'000**	**Ksh'000**	**Kshs'000**	**Kshs '000**
JICA-1	25,384,171	545,715	(1,570,440)	41,759	41,759	810,331	23,549,115
JICA-2	0	603,190	14,126	0	0	0	617,316
TOTAL	**25,384,171**	**1,148,905**	**(1,556,314)**	**41,759**	**41,759**	**810,331**	**24,166,431**

BORROWINGS (CONT'D.)

JICA Loan 1 (KE-P25, KEP25A)

Japan International Cooperation Agency funded the implementation of the Mombasa Port Development Project phase I. The principal value of the loan is JPY 26,711 million, interest rate is 0.2 percent paid per annum paid semi-annually.

The loan disbursements were completed. Total amounts disbursed was JPY 26,329 Million translated to Kshs 24,359 Million as 30th June 2017. The loan repayments have commenced, a total of JPY 870 Million translated to Kshs 794 Million was paid in the year. As at 30th June 2018 the outstanding balance for JICA loan was JPY 25,459 Million translated to Kshs 23,339 Million. The Loan repayment will be for thirty years, paid semi-annually on 20th May and 20th November commencing on 20th November 2017 to 20th November 2047.

The loan was for the purchase of goods and services from suppliers, contractors of consultants as the case may be to facilitate the implementation of the Mombasa Port Development Project Phase I (berth 20 and 21). The MPDP I project was completed in February 2016 and handled its maiden ship in April 2016.

JICA LOAN 2 (KE-P30)

Japan International Cooperation Agency funded the implementation of the Mombasa Port Development Project phase II. The principal value of the loan is JPY 32,116million, interest rate is 0.1 percent paid per annum paid semi-annually.

As at 30th June 2018 amounts disbursed was JPY 7,578 Million translated to KES 6,947 Million. The Loan agreement became effective on 24th August 2016 and the final disbursement shall be made not later than 24th August 2023. The Loan repayment will be for thirty years, paid semi-annually on 20th March and 20th September commencing on 20th September 2025 to 20th March 2055.

The loan is for the purchase of goods and services from suppliers, contractors of consultants as the case may be to facilitate the implementation of the Mombasa Port Development Project Phase II.

30. DEFERRED TAX:

The net deferred tax liability movement at year end is as shown below;

	2017/2018	2016/2017
	Kshs '000	Kshs '000
Balance as at 1st July	4,123,829	3,032,682
Movement for the year	1,157,676	1,091,147
TOTAL	**5,281,505**	**4,123,829**

31: TRADE & OTHER PAYABLES:

	Note	2017/2018 Kshs '000	2016/2017 Kshs '000
Trade Payables:			
General Trade		375,958	2,242,212
General Foreign Suppliers		108,114	323,214
Payroll		432,815	359,764
Accrued Expenditure		1,384,614	1,468,742
Other Payables:			
Ministry of Finance / Dredgco		287,231	287,231
2nd Terminal Suppliers		89,028	4,357
Contractors Deposit		1,237,735	890,735
Lamu Port Project Suppliers		1,637,253	0
Stock accruals		492,076	378,196
Advance Receipts	31 (a)	76,602	83,536
KRC		651,978	0
Tax Clearing		76,284	0
Kenya Ports Authority Directors		141	62
KCHS Provident Fund		6,426	6,426
Down Payment Cargo Customers		11,772	11,772
VAT Out		0	161,453
Others		133,116	222,102
TOTAL		**7,001,143**	**6,439,802**

A. ADVANCE RECEIPTS

	2017/2018 Kshs '000	2016/2017 Kshs '000
Advance Marine Debtors	13,613	12,498
Advance Cargo Debtors	44,210	52,833
Advance Rental	18,779	18,205
TOTAL	**76,602**	**83,536**

At the year-end, Trade and Other payables increased over the previous year primary due to Lamu port project as well as other port expansion and modernization project.

32. RETIREMENT BENEFITS

The Authority operates a Defined Benefit and Defined Contribution scheme for its employees. The assets of the two schemes are held in a separate trustee administered funds which are funded by both contributions from the Authority and employees.

As stated under note (i) the schemes are administered by Zamara Actuaries, Administrators and Consultants Ltd. while Britam Asset Managers (K) Ltd, African Alliance (K) Ltd. Investment Bank Ltd and Stanlib (K) Ltd. provides custodial services to the Scheme.

The Authority's contribution to the Defined contribution scheme is the final obligation. The employer's contributions payable for DC scheme was Kshs 1.009 Billion (FY 2016/2017 Kshs 955 Million) and have been recognized in the Statement of Profit and Loss and Other Comprehensive Income.

The Authority Defined Benefit retirement scheme was closed to new entrants and future accrual of benefits effectively on 31st December 2012. The Authority only makes contribution to the scheme in respect of those members who opted to remain in the Defined Benefit scheme. The results of the valuation carried out by Zamara Actuaries, Administrators and Consultants Ltd., on the basis of the actuarial assumptions adopted, shows an actuarial deficit of Kshs 1,767.5 million as at 31 December 2017. Actuarial surplus as at December 2016 was Kshs 2,980 million. The level of funding (the ratio of the value of the Assets to the past service liability) is 93.5% (December 2016; 112.9%).

The scheme funding level is below the statutory minimum funding level of 100% at the valuation date. The scheme's liability profile is mature with a significant number of pensioners and maturing- in-service workforce.

A brief summary of assumptions for the valuation of liabilities is as provided;

Rate of Interest	10 % per annum
Rate of Salary inflation	8 % per annum
Rate of pension increases	0 % per annum
Normal Retirement Age	60th Birthday
Mortality – Pre- retirement	1949/52 Ultimate
Mortality – Post- retirement	A (55) Males/Females Ultimate

The amount included in the Statement of Financial Position arising from the Authority's obligation in respect of defined benefit scheme is as follows;

	2017/2018 Kshs '000	2016/2017 Kshs '000
Value Placed on Scheme Assets	25,420,900	26,006,976
Accrued (Past) liability	(27,188,400)	(23,026,802)
(Deficit)/ Surplus	**(1,767,500)**	**2,980,174**

RETIREMENT BENEFITS (CONT'D.)

Reconciliation of the amounts included in the Statement of Financial Position is as follows;

i. Planned Assets movement;

	2017/2018	2016/2017
	Kshs '000	Kshs '000
Assets at the Start of the Period	**26,006,976**	**24,237,696**
Income;	**1,628,000**	**4,806,724**
Contributions	146,000	704,177
Net Investment Income	1,482,000	4,102,547
Outgoing;	**(2,214,076)**	**(3,037,444)**
Benefit Payments	(2,057,000)	(2,783,866)
Administration expenses	(157,076)	(253,578)
Assets at end of the period	**25,420,900**	**26,006,976**

ii. Defined Benefit Obligation movement;

	2017/2018	2016/2017
Value of Accrued Liabilities	**Kshs '000**	**Kshs '000**
Outstanding benefit payments	559,500	611,101
Cost of re-computation of benefits	0	0
Enhancement of dependants benefits	0	0
Death Gratuity	20,200	0
Future benefits to current pensioners (including spouses & dependents), suspended pensioners and deferred pensioners	9,701,300	8,137,900
Past service pension benefits for active members based on projected earnings	16,907,400	14,277,801
Total accrued (past service) liabilities	**27,188,400**	**23,026,802**

The Scheme's assets include Investment property (Commercial and Residential), Financial Assets (Treasury Bonds, Treasury Bills, Corporate Bonds and Equity), and Cash and Cash Equivalents (Cash at current accounts and Fund Managers, Fixed Deposits and Call Deposits).

A summary of the distribution of the scheme assets based on the audited scheme accounts as at the valuation date;

	2017/2018		2016/2017	
Assets	**Kshs '000**	**%**	**Kshs '000**	**%**
Properties Investments	12,557,000	49.4	12,539,200	48
Equities (Quoted and Unquoted)	4,256,000	16.8	3,265,000	13
Other Fixed Assets & Intangible Assets	18,000	0.1	9,500	0
Government Bonds	6,346,000	24.9	7,342,500	28
Real Estate Investment Trusts	51,000	0.2	0	0
Commercial Paper and Corporate Bond	1,325,000	5.2	1,554,300	6
Net Current Assets	868,000	3.4	1,296,476	5
Total	**25,421,000**		**26,006,976**	

33. RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS

	Note	2017/2018	2016/2017
Cash Flow from Operating Activities:		**Kshs '000**	**Kshs '000**
Operating profits before tax		10,308,479	10,628,242
Add/(Deduct):			
Interest income		(1,729,468)	(1,240,537)
Interest expense		48,466	41,759
Non-Cash Items:			
Depreciation of Property Plant and Equipment		7,590,886	7,482,805
Amortization of Intangible Assets		67,877	16,252
Increase in Provision for impairment of debts		81,270	109,122
Increase in Provision for Impairment Asset-PPE		198,273	2,791
Increase/(Decrease) in Provision for Impairment stock		35,446	(4,675)
Increase in impairment of Chase Bank deposits		757,852	0
Write-off of Staff Debts		2,023	0
Write-Back of Debts recovered		0	(7,109)
Write-Back of Stock		0	(206)
(Gain)/Loss on sale of assets		13,951	(3,999)
Profit on sale of Surveyed stock		(8,462)	(682)
Net foreign (Gain)/loss		(1,862)	1,631
Operating Profit before working capital changes		**17,364,731**	**17,025,394**
Increase in Inventories	21	(32,820)	(29,090)
(Increase)/Decrease in Prepayments	22(c)	(460,212)	229,609
Increase in Trade & other receivables	34	(5,348,001)	(2,351,109)
Increase in Trade & other payables	35	561,341	1,627,964
Cash generated from operations		**12,085,039**	**16,502,768**

34. RECONCILIATION OF ACCOUNTS RECEIVABLES:

	2017/2018	2016/2017	
	Kshs '000	**Kshs '000**	**Kshs '000**
Balance as at 30th June	14,500,357	8,848,612	
Add:			
Prepayments	(721,481)	(261,269)	
Subtotal	**13,778,876**	**8,587,343**	
Less: Valuation Adjustment	(213,099)	(369,567)	
Reconciled Movement Amount	**13,565,777**	**8,217,776**	**(5,348,001)**

35. RECONCILIATION OF ACCOUNTS PAYABLES:

	2017/2018	2016/2017	
	Kshs '000	**Kshs '000**	**Kshs '000**
Balance as at 30th June	7,001,143	6,439,802	
Subtotal	**7,001,143**	**6,439,802**	
Reconciled Movement Amount	**7,001,143**	**6,439,802**	**561,341**

36. PURCHASE OF PPE

	2017/2018	2016/2017
	Kshs '000	Kshs '000
Purchase of PPE as at 30 June	15,797,055	17,580,038
Less;		
TMEA Works	(1,757,294)	(963,026)
Purchase of PPE as per Cashflow	**14,039,761**	**16,617,012**

37. RECEIPT OF GOK PROJECT FUNDS

	2017/2018	2016/2017
	Kshs '000	Kshs '000
Lamu Port Development	3,171,000	6,585,252
Reconciled Movement	**3,171,000**	**6,585,252**

During the year Kenya Ports Authority received Kshs 3.171 Billion from Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works for the Lamu Port development project.

38. DIVIDENDS PAYABLE

	2017/2018
Payable as 01 July:	Kshs '000
FY 2015/16	497,603
FY 2016/17	502,485
Paid within the Year	(1,000,088)
Sub-Total	**0**
Payable as 30 June	516,130
TOTAL	**516,130**

Dividends for FY 2015/16 Kshs 497,603,000 and FY 2016/17 Kshs 502,484,543 were paid to the National Treasury. Dividends payable to the Government FY 2017/2018 are as stated above.

39. RELATED PARTY TRANSACTIONS

The Government of Kenya is the principal shareholder of the Authority, holding 100% of the KPA equity interest. Included in debtors and investments are balances owing or receivable from the following related parties:

	2017/2018	2016/2017
Description	Kshs '000	Kshs '000
Kenya Ferry Services (Investment)	100,000	100,000
Ministry of Transport- MoTIHUD	287,231	287,231
Kenya National Shipping Line (Debtor)	28,178	28,121
Kenya National Shipping Line (Investment)	54,347	54,347
Impairment provision	(469,727)	(469,698)
Total	**29**	**1**
DB Retirement Benefit Asset	0	2,980,174
DB Retirement Benefit Liability	1,767,500	0
Total	**1,767,500**	**2,980,174**

RELATED PARTY TRANSACTIONS (CONT'D.)

KENYA RAILWAY CORPORATION

During the year the Authority implemented various the programs in support of the SGR project. This include procurement of equipment, contractors, hire of labor and equipment and review of tariffs. The management expects full reimbursement of actual costs from the Railway Development Levy Fund. As at 30th June 2018 Kenya Railways owes the Authority Kshs 7.2 billion.

KEY MANAGEMENT COMPENSATION

During the year, the senior management team comprising nine (seven actively discharging their duties) divisional heads and the MD were paid Kshs 99.6 million (Kshs 76.8 million; FY 2016/17) as salary and other allowances. The non-executive directors are entitled to receive Kshs 30 million out of which Kshs 9 million is payable to the National Treasury for directors representing the Government and its agencies.

KENYA NATIONAL SHIPPING LINE

Kenya National Shipping Line enjoyed secretarial services from the Authority on the understanding that this would be paid for. The line has however operated under difficulties and has been unable to pay. The Authority has fully impaired the investment while the debt continues to be impaired as per the impairment policy.

KENYA PORTS AUTHORITY PENSION SCHEME

The Authority operates defined benefit scheme alongside the defined contributory scheme. The defined benefit scheme is valued by Zamara Actuaries, Administrators and Consultants Ltd. As at December 2017, the scheme funding level was at 93.5% (112.9%; FY 2016/17) resulting is an actuarial deficit of Kshs 1,767.5M (Surplus Kshs 2,980 million; FY 2016/17).

Notes to the financial statements for the year ended 30 June 2018

4 0. CAPITAL COMMITMENTS

The Authority is undertaking the under listed projects with an objective of expanding capacity and modernization of equipment to increase efficiency in port services.

Project Description	Estimated Cost	Amount Paid	Pending	Completion	Estimated Completion Date	Sources of Funds
	Kshs	Kshs	Kshs	Cost %		
Lamu Port Project (Civil, Consultancy & PAPs)	44,000,000,000	16,301,660,274	27,698,339,726	37%	December, 2020	KPA/GOK
Mombasa Port Development Project - (MPDP Phase II)	38,000,000,000	3,891,138,596	34,108,861,404	10%	December, 2019	KPA/JICA
Cruise Ship Facility	1,100,000,000	532,327,615	567,672,385	48%	December, 2018	KPA
Rehabilitation of SOT&KOT (Mandatory Fire	200,000,000	122,140,739	77,859,261	61%	December, 2018	KPA
Expansion of Roads- Gate 18 to Changamwe	2,400,000,000	457,598,463	1,942,401,537	19%	December, 2018	KPA
Relocation Of Kipevu Oil Terminal	40,000,000,000	379,334,537	39,620,665,463	1%	December, 2018	KPA
Design, Construction Of RMG (SGR) Crane	1,500,000,000	1,336,415,209	163,584,791	89%	December, 2018	KPA
Rehabilitation of G-Section and Lighter Quays	800,000,000	719,509,866	80,490,134	90%	December 2018	KPA/TMEA
RE-Roofing With Aluminum Roofing Sheets Go Downs	700,000,000	601,842,672	98,157,328	86%	December 2018	KPA
Ground Investing. On Shore &Off Shore Drilling	300,000,000	235,912,391	64,087,609	79%	December 2018	KPA
Servers, Storage and Back-up for 3 Data Centers	240,000,000	234,962,844	5,037,156	98%	December 2018	KPA
Rehabilitation & Repairs of slipways1,2,3,4,5,6&7	160,000,000	140,369,347	19,630,653	88%	December 2018	KPA

Projects currently being implemented by the Authority's by development partners include:

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
Mombasa Port Development Phase II	KE-P30	JICA	2016 to 2019	Civil works, Buildings, Equipment,Security system and Consulting Services	No	Yes
Lamu Port Development Project	NIL	GoK	Ongoing	Civil works	No	Yes
Trade Mark East Africa	NIL	TMEA	Ongoing	Civil works, Buildings and Equipment	No	Yes

41. FINANCIAL RISK MANAGEMENT POLICIES

The Authority's activities expose it to a variety of financial risks including credit, liquidity and market risks. The Authority's overall risk management policies are set out by the board and implemented by the management and focus on the unpredictability of changes in the business environment and seek to minimize the potential adverse effects of such risks on the Authority's performance by setting acceptable levels of risk. Management is currently evaluating financial risks to hedge.

The Authority's financial risk management objectives and policies are detailed below;

(i) Credit Risk Management

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from financial assets, and is managed on an Authority-wide basis. The Authority does not grade the credit quality of financial assets that are neither past due nor impaired.

Credit risk on financial assets with banking institutions is managed by dealing with institutions with good credit ratings and placing limits on deposits that can be held with each institution, as stated in the investment policy.

Credit risk on trade receivables is managed by ensuring that credit is extended to customers with an established credit history. The credit history is determined by taking into account the financial position, past experience and other relevant factors. Credit is managed by setting the credit limit and the credit period for each customer. The utilization of the credit limits and the credit period is monitored by management on a monthly basis. The amounts presented in the Statement of Financial Position are net of provisions for impairment.

The ageing analysis of past due but not impaired trade receivables is: "if there are other categories of financial assets which are past due but not impaired, similar disclosure be provided".

The carrying amount of financial assets recorded in the financial statements that represents the Authority's maximum exposure to credit risk obtained is as follows:

	Fully Performing	Past due	Impaired	Total
30-Jun-18	**Kshs '000**	**Kshs '000**	**Kshs '000**	**Kshs '000**
Due from related companies	0	0	443,085	443,085
Trade receivables;				
Marine	165,975	32,171	235,225	433,371
Cargo	1,003,872	230,855	1,010,230	2,244,957
Rental	17,265	7,318	66,257	90,840
Bank balances	766,055	2,436	0	768,491
Total	**1,953,167**	**272,780**	**1,754,797**	**3,980,744**

FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

	Fully Performing	Past due	Impaired	Total
30-Jun-17	**Kshs '000**	**Kshs '000**	**Kshs '000**	**Kshs '000**
Due from related companies	0	1	469,697	469,698
Trade receivables;				
Marine	325,569	33,091	54,944	413,604
Cargo	666,000	143,661	848,672	1,658,333
Rental	15,610	8,146	43,241	66,997
Bank balances	688,534	0	0	688,534
Total	**1,695,713**	**184,899**	**1,416,554**	**3,297,166**

As at the end of the reporting period, collateral including bank guarantees and deposits worth at least Kshs 1,189 Million (2016-17; Kshs 978 Million) was being held as a means of mitigating the risk of financial loss from default.

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low. Part of the debt that is past due is not impaired and continues to be paid. The finance department is actively pursuing this debt. The debt that is impaired has been provided for as per the Authority Credit control policy. Debts and Investments worth Kshs 2,256 Million (2016-17; Kshs 1,417 Million) is provided for and includes at least Kshs 585 Million that is under litigation. The finance department is pursuing various measures to recover the impaired amounts.

(ii) Liquidity Risk Management

Liquidity risk is the risk that the Authority will encounter difficulty in meeting obligations associated with financial liabilities. The board has developed a risk management framework for the management of the Authority's short, medium and long-term liquidity requirements thereby ensuring that all financial liabilities are settled as they fall due.

The Authority manages liquidity risk by continuously reviewing forecasts and actual cash flows, and maintaining banking facilities to cover any shortfalls. The forecast provides details of additional undrawn facilities that may be utilized by the Authority to further reduce liquidity risk.

FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

The table below analyses the Authority's financial liabilities as at 30th June 2018 that will be settled on a net basis on maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

AS AT 30 JUNE 2018

Payables	Less than 1 month	Between 1 – 3 months	Between 4 - 6 months	Over 6 months	Total
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
General Trade	217,898	34,746	9,279	114,035	375,958
General Foreign	23,546	732	28,185	55,651	108,114
Payroll	333,067	10,105	11,969	77,674	432,815
Borrowings-Current portion	0	0	395,542	395,567	791,109
Total	**574,511**	**45,583**	**444,975**	**642,927**	**1,707,996**

AS AT 30 JUNE 2017

Payables	Less than 1 month	Between 1 – 3 months	Between 4 - 6 months	Over 6 months	Total
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
General Trade	229,789	1,815,912	89,321	107,190	2,242,212
General Foreign	69,192	157,190	27,607	69,225	323,214
Payroll	13,251	284,359	6	62,148	359,764
Borrowings-Current Portion	0	0	405,201	405,130	810,331
Total	**312,232**	**2,257,461**	**522,135**	**643,693**	**3,735,521**

(iii) Market risk Management

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and comprises two types of risk: currency risk and interest rate risk.

a) Currency Risk

The Authority's is exposed to foreign exchange risk arising from various transactions denominated in foreign currencies, primarily with respect to the US dollar and Japanese Yen. This results in exposures to exchange rate fluctuations. The balances impacted in this regard are the balances due to foreign suppliers, balances due from debtors, and bank balances. Exchange rate exposures are managed within approved policy parameters utilizing matching of assets and liabilities.

FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

The carrying amounts of the Authority's main foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows;

Currency (USD)	Liabilities 30-Jun 2017/18		Assets 30-Jun 2017/18		Liabilities 30-Jun 2016/17		Assets 30-Jun 2016/17	
	Kshs '000	USD '000	Kshs '000	USD '000	Kshs '000	USD '000	Kshs '000	USD '000
Assets								
Bank			452,282	4,471			415,710	4,006
Receivables			6,055,391	59,260			4,895,060	47,508
Liabilities								
Payables	2,622,554	25,428			1,883,326	17,888		
Total	**2,622,554**	**25,428**	**6,507,673**	**63,731**	**1,883,326**	**17,888**	**5,310,770**	**51,514**

Currency (JPY)	Liabilities 30-Jun 2017/18		Assets 30-Jun 2017/18		Liabilities 30-Jun 2016/17		Assets 30-Jun 2016/17	
	Kshs '000	JPY '000	Kshs '000	JPY '000	Kshs '000	JPY '000	Kshs '000	JPY '000
Assets								
Receivables			5,705,787	6,248,950			0	0
Liabilities								
Borrowings-Current	791,109	863,026			810,331	875,844		
Payables					76,673	84,099		
Total	791,109	863,026	5,705,787	6,248,950	887,004	959,943	0	0

Foreign currency sensitivity analysis

The sensitivity analysis in foreign currency arises from bank balances, trade receivables and payables denominated in foreign currency mainly US dollars (USD) and Japanese Yen

The following table demonstrates the effect on the Authority's statement of comprehensive income on applying the sensitivity for a reasonable possible 10% change in the exchange rate of the main foreign transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

	Exchange rate	Change in currency rate	Effect on Profit before tax Kshs'000
2018			
USD	101.15	10%	393,415
JPY	0.9167	10%	78,078
2017			
USD	103.78	10%	349,000
JPY	0.9252	10%	20,000

b) Interest Rate Risk

Interest rate risk arises primarily from borrowings and cash and cash equivalents. The corporation's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios.

(iv) Fair value of financial assets and liabilities

(a) Financial instruments measured at fair value

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Authority's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Authority considers relevant and observable market prices in its valuations where possible.

FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

As at 30 June 2018, the Authority held the following financial instruments measured at fair value.

At 30 June 2018	Level 1 Kshs '000	Level 3 Kshs '000	Total Kshs '000
Financial Assets			
Treasury Bills+	17,988,504	0	17,988,504
Chase Bank*	0	2,273,555	2,273,555
Total	**17,988,504**	**2,273,555**	**20,262,059**
Financial Liability			
Borrowings - Jica 1	23,338,510	0	23,338,510
Jica 2	6,946,575	0	6,946,575
Total	**30,285,085**	**0**	**30,285,085**

At 30 June 2017	Level 1 Kshs '000	Level 3 Kshs '000	Total Kshs '000
Financial Assets			
Treasury Bills+	14,506,337	0	14,506,337
Chase Bank*	0	3,031,407	3,031,407
Total	**14,506,337**	**3,031,407**	**17,537,744**
Financial Liability			
Borrowings - Jica 1	24,359,446	0	24,359,446
Jica 2	617,316	0	617,316
Total	**24,976,762**	**0**	**24,976,762**

There were no transfers between levels during the year.

+ All the Treasury Bills are maturing within the year

* Chase Bank was placed under receivership on 7th April 2016. Currently SBM (Kenya) Ltd. has taken up 75% of certain assets & liabilities of the bank as per Kenya Gazette notice No 6833 dated 6th July, 2018 and Kenya Deposit Insurance Corporation retaining 25%.

(b) Financial instruments not measured at fair value

Disclosures of fair values of financial instruments not measured at fair value have not been made because the carrying amounts are a reasonable approximation of their fair values.

(v) Operational Risk Management

Operational risk is the risk of indirect loss arising from a wide variety of causes associated with the corporation's processes, personnel, technology and infrastructure, external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

The corporation's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the corporation's reputation with overall cost effectiveness and to avoid any control procedures that restrict initiative and creativity in the corporation.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management in the corporation's departments.

This responsibility is supported by the development of overall corporation standards for the management of operational risks in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization and approval of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the periodic assessment of operational risks faced by the entity, and the adequacy of controls and procedures to address the risks identified.
- Requirements for the reporting of operational losses and implementation of the proposed remedial solutions and actions.
- Development of contingency plans
- Training and professional development for its staff; and
- Adherence to ethical and business standards.

Review of compliance with corporation standards is reviewed on an ongoing basis by senior management and the internal audit department.

42. CAPITAL RISK MANAGEMENT

The corporation's objectives when managing capital are:

i. To match the profile of its assets and liabilities, taking account of the risks inherent in the business;

ii. To maintain financial strength to support business growth; and

iii. To safeguard the corporation's ability to continue as a going concern so that it can continue to provide adequate returns to its Government and value to all other stakeholders. The corporation has a number of sources of capital available to it and seeks to optimize its debt to equity structure in order to ensure that it can consistently maximize returns to Government. Capital adequacy is monitored regularly by the corporation's management and quarterly by the Board of Directors.

The capital structure of the Authority consists of debt, which includes borrowings, and capital, other reserves and retained earnings. The Authority monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital and reserves. Total debt is calculated as total non-current liabilities and current liabilities.

	2017/2018	2016/2017
Description	**Kshs '000**	**Kshs '000**
Non-Current Liabilities	52,755,811	41,331,299
Current Liabilities	7,792,252	7,481,956
Total Debt	**60,548,063**	**48,813,255**
Total Capital and reserves	**123,333,460**	**117,691,308**
Net debt to Equity	**49%**	**41%**

Debt ratio, an alternative gearing ratio calculated as total debt divided by total assets is as shown below;

	2017/2018	2016/2017
Description	**Kshs '000**	**Kshs '000**
Total Debt	60,548,063	48,813,255
Total Assets	183,899,776	166,504,563
Debt to Total Asset ratio	**33%**	**29%**

43. CONTINGENT LIABILITIES

Claims lodged and cases filed against the Authority in respect of third party claims are estimated at Kshs 16 Billion and are as quantified in no particular order in the table below;

NO.	PARTICULARS	NATURE OF CLAIM	PROGRESS
1	Msa High Court Admilarity & Commercial 147 of 2015 MM Integrated Steel Mills (U) Ltd vs Kenya Ports Authority & Inchcape Shipping Services(K) Ltd	Damage to Plaintiff's consignment during discharge from a ship.	Matter ongoing
2	ELRC Cause No. 801 of 2015; Bernard Chitiavi -VS- KPA Claim instituted on 28th October 2015	Suit for unlawful dismissal seeking reinstatement of Claimant as well as interim injunction for removal from staff quarters.	Matter ongoing
3	MSA ELRC No. 922 of 2015; Margaret Adhiambo Odoo -VS- KPA Instituted on 14th December 2015	Suit for unlawful termination arising from presentation of fake certificates and an application to shield the Claimant for eviction from the staff quarters.	Matter ongoing
4	NAI SC PET. 20 OF 2017 Modern Holdings LTD. EA vs KPA	Loss of Containers (loaded with perishable goods) during the post-election violence period. Challenging decision of Court of Appeal delivered on 29th September 2017 in Civil Appeal 108 of 2016.	Matter currently before the Supreme Court. Ruling to be delivered on notice.
5	NAI HCCC NO. 405 OF 2007 Baharini Oil Supplies v KPA & the AG	Suit for specific performance and damages arising from a concession agreement between KPA and the Plaintiff for the Mbaraki Wharf. PwC engaged to counter forensic report of Ernst & Young tabled by the Plaintiff.	Hearing on 23rd January 2019

CONTINGENT LIABILITIES (CONT'D)

NO.	PARTICULARS	NATURE OF CLAIM	PROGRESS
6	SC Pet. No. 3 of 2016 Albert Chaurembo Mumba & 7 Others v KPAPS	Appeal against the Court of Appeal's judgment delivered on 26th February 2016 in Civil Appeal No. 38 of 2014 dismissing the appeal	Awaiting judgment to be delivered on notice
7	HCC Misc. Application No. 85 of 2018 Civicon Limited Vs. Kenya Ports Authority	Matter relates to the contract for Civil works in Rehabilitation of G Section Container Yard (Lot A) for a term of one year from 13th June 2016. The Authority called the performance bond and liquidated damages due to breach by the Plaintiff who therefore filed the suit	Consent recorded in Court to settle the entire claim
8	Pepe Limited v KRC, KRA, KPA, MOTIHUD & 2 Others	Suit against the Authority and other government agencies seeking among others and order to compel the Respondents to nominate cargo to its depot.	Hearing ongoing – highlighting of submissions on 22nd October 2018

44. REPORTING CURRENCY

The functional and reporting currency is Kenya Shillings (Kshs).

45. SUBSEQUENT EVENTS

They were no events after the end year that could have had effect on the Authority's financial statements.

46. ENACTMENT

The Authority was established through an Act of parliament Cap 391 on 20th January 1978.

Additional Disclosures for the year ended 30 June 2018

I. NOTES TO THE STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

As stated under the Statement of Comparison of Budget and Actual amounts variances (over/under 10%) between the actual and final budgeted amounts are explained below;

TOTAL REVENUE

Total Revenue (including Finance Income) earned was Kshs 45,358 million which was above the budgeted figure of Kshs 42,431 million by Kshs 2,927 million or 6.8% favorable variance.

OPERATING REVENUE

Kshs 42,738 million was earned from normal operations against a budget of Kshs 41,101 million resulting into a favorable variance of Kshs 1,637 million. The favorable variance was recorded mainly due to growth in throughput in the period under review.

OTHER INCOME

Other Income had a positive variance compared to budget mainly due to accrued income for salvage operations on MV Theresa Arctic. The vessel which run aground off Kilifi in the Indian Ocean was successfully refloated and piloted to Mombasa port. Salvage recovery sum of Kshs 329 Million was accrued.

TOTAL OPERATING EXPENSES

Total Operating Expenditure was more than the budget resulting into an adverse variance of Kshs 168 million.

ADMINISTRATIVE EXPENSES

Expenditure on this vote was less than the budget recording a favorable variance of Kshs 42 million.

OPERATING EXPENSES

Expenditure was more than the budget resulting into an adverse variance of Kshs 53 million.

FINANCE INCOME

Finance Income had a positive variance compared to budget due to increased bank interest earnings. This was mainly on account of higher deposit holdings.

Delays in implementation of some projects which had been earmarked for the period under review including Kipevu road and relocation of KOT, among others contributed to the growth in cash reserves.

Additional Disclosures for the year ended 30 June 2018

FINANCE COST, IMPAIRMENTS AND OTHER GAINS/LOSSES

Expenditure under these heads was unfavourable recording an overrun of Kshs 907 million. The areas that led to the overruns are as pointed below;

- An impairment provision (Kshs 758 million) made on Chase Bank deposits (bank is under liquidation).
- A Trade Debtors impairment (Kshs 81 million).
- A provision for write off (Kshs 198 million) was also effected on PPE.
- A foreign exchange loss (Kshs 44 million) was realized during the period.
- The impairments were not anticipated and were done after the budget process had already been finalized and were therefore not adequately catered for.

PROFIT BEFORE TAX

A net operating profit of Kshs 10,308 million was realized during the period. The profit recorded was above the budgeted profit of Kshs 8,456 million by Kshs 1,852 million.

II. PROGRESS ON FOLLOW-UP OF AUDITOR RECOMMENDATIONS

The following is a summary of issues raised by the Office of the Auditor General, management comments and status;

Audit Report	Issue/Observations From the auditor	Management Comments	Status: (Resolved/ Not Resolved)
FY 2016/17	Unutilized Parcels of Land / Idle Parcels Of Land	Land policy has been approved and is being implemented. The policy recognizes the provisions of the Law on Public Investment and specifically holding land for speculative purposes.	Policy is being applied. A consultant (KPMG) has been engaged to conduct a forensic audit on all properties.
	Receivables; Ministry of Transport and Infrastructure (Kshs. 287M)	The Authority wrote to the parent Ministry, seeking the National Treasury's concurrent approval to either write off the debt.	Management is following up on the request to write off Dredgco debt.
	Pension Scheme Expenses	The Board has approved the delinking of the Administrative functions of both the Defined Benefit and the Defined Contribution Pension Schemes.	The process of delinking is ongoing. All expenses will be settled by the schemes.
	Retirement Benefit Asset	The scheme's investment in properties is more than the threshold set because of historical issues. The scheme is in final stages of the remedial plan to ensure the imbalance is corrected.	The scheme has sent its last fund valuation to the Retirement Benefit Authority and are following up on the remedial plan to ensure that the scheme reverts back to the correct funding level and correct asset allocation as required. Assets have been identified as per the disposal strategy.

Additional Disclosures for the year ended 30 June 2018

PROGRESS ON FOLLOW-UP OF AUDITOR RECOMMENDATIONS (CONT'D.)

Audit Report	Issue/Observations From the auditor	Management Comments	Status: (Resolved/ Not Resolved)
FY 2016/17	Alienated Properties	With regard to the observation, we wish to state that the Authority has filed several cases as listed in the table below. The total number of plots belonging to KPA which have been irregularly alienated to third parties is twenty-eight (28). The third parties have purportedly acquired rights (ownership) over the plots and some have even undertaken developments. However, in the month of January, the National Land Commission published a notice listing parcels illegally alienated from KPA and gave the registered parcel owners 90 days to vacate the parcel	The matter is pending in court of law
	Land Without Documents of Title	The Authority has contracted KPMG consultants to conduct an audit of all its properties, including the status of the parcels, the accuracy of the titles, the existence of the parcels, regularity of use, ownership, etc.	Forensic audit is ongoing
	Excision of Part of Harbour Area	As stated earlier, the Authority did not grant approval for the reclamation of the land by the developer. The developer was tasked to clarify the works being done when such works came to the attention of management. They responded that the ongoing works did not involve reclamation but rather involved cut and fill procedures up to their plots' boundaries. The National Land Commission through letter dated 17th December, 2015 also addressed the firm and asked them to stop the reclamation. They are the ones mandated by law to intervene. A copy of the letter was availed to the Office of the Auditor-General.	The National Land Commission through letter dated 17th December,2015 directed the following; - the firm was asked them to stop the reclamation, -the County Government of Mombasa and the County Commissioner of Mombasa were directed to enforce the STOP.

PROGRESS ON FOLLOW-UP OF AUDITOR RECOMMENDATIONS (CONT'D.)

Audit Report	Issue/Observations From the auditor	Management Comments	Status: (Resolved/ Not Resolved)
FY 2016/17	Approval of Access Road	The Authority through the Board approved various parts of the project and at no point did the Board approve the connecting road for the exclusive use by the developer. On the contrary, the Board was very clear that the road and the connections were for public use. Various Board memos, giving very clear guidelines on the issue in question were availed to your team during the audit.	The Board did not approve the connecting road be for the exclusive use by the developer.
	Long Term Investments	The Authority's Board of Directors had given its approval for the panel of banks proposed by management. The National Treasury through their letter Ref: CONF/ MOT/16/01 "TY" of 21st July, 2015 had granted similar approval to the Authority to invest surplus funds and maintain operational accounts with the specified banks of which Chase Bank was one of them. All banks recommended were competitively selected and had capacity and financial viability.	As indicated under note 5; SBM Bank (Kenya) Ltd has commenced the acquisition of certain assets & liabilities of Chase Bank Kenya Ltd (In Receivership). The Authority is keenly following-up the matter and management is confident deposits in CBLR will be recovered.

Gen. (Rtd) Joseph. R. E. Kibwana, EGH, CBS

CHAIRMAN

Dr. Arch. Daniel Ogwoka Manduku

MANAGING DIRECTOR

Additional Disclosures for the year ended 30 June 2018

III. INTER- ENTITY TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds	Nature of Development Funds	Date received	Amount received Kshs '000	Total Amount Kshs '000	Where Recorded/ recognized Statement of Financial Performance	Total Transfer FY 2017/18 Kshs '000
State Department for Transport	Lamu Port Project	17.08.2017 02.01.2018	2,500,000 671,000	3,171,000	Non-Current Liabilities	3,171,000
Total			**3,171,000**	**3,171,000**		**3,171,000**

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