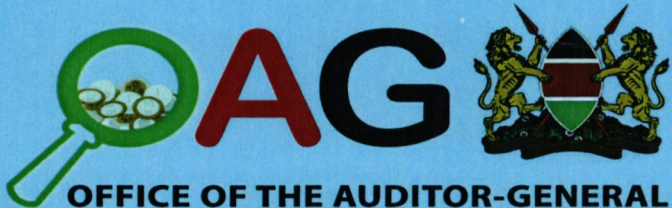


REPUBLIC OF KENYA



*Enhancing Accountability*

THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 28 JUN 2021	DAY: TUESDAY
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**THE AUDITOR-GENERAL**

**ON**

**KENYA PORTS AUTHORITY**

**FOR THE YEAR ENDED  
30 JUNE, 2019**

PARLIAMENT  
OF KENYA  
LIBRARY





2018/2019

**"WORLD CLASS PORTS OF CHOICE"**

**KPA ANNUAL  
REPORT AND  
FINANCIAL  
STATEMENTS**

**Prepared in accordance with the accrual basis of accounting under  
the International Financial Reporting Standards (IFRSs)**



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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 Management Committee
HOMS	Home Ownership Mortgage Scheme
ICDK	Inland Container Depot Kisumu
ICDN	Inland Container Depot Nairobi
ICT	Information Communication Technology
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 & PW	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

## WHO WE ARE

### 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 20<sup>th</sup> 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 for Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works. We are domiciled in Kenya with liaison offices in Uganda, Rwanda and Burundi.

### Vision

"World Class Ports of choice"

### Mission

"To Provide Efficient and Competitive Port Services to Facilitate Global Trade"

## Strategic Objectives

Improve port  
services

Improve  
customer  
satisfaction

Sustain  
business  
growth

Improve  
labour  
productivity

Enhance risk  
management and  
environmental  
sustainability

## WHO WE ARE (Cont'd)

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

### 1. Operational Excellence

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

### 2. Customer Service Excellence

KPA is consistently delivering superior customer experience by;

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

### 3. Business Growth

KPA is focused on;

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

### 4. Good Governance

KPA is undertaking the following strategic approaches;

- Compliance with international standards and guidelines, and all statutory laws and regulations;
- Ensuring 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 scheduled seaports along Kenya's coastline. 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 passengers
- viii. Storage of cargo awaiting onward shipment

## AUTHORITY INFORMATION

### Directors

Name		Entry/Exist
Gen. (Rtd) Joseph. R. E. Kibwana	Chairman	
Dr. Arch. Daniel O. Manduku	Managing Director	
Henry Rotich	Director (CS National Treasury)	
Paul Kihara Kariuki	Director (Attorney General)	
Esther Koimett, CBS	Director (PS State Department of Transport)	Entry-July 2018
Prof.Arch,Paul M. Maringa	Director (PS State Department of Transport)	Exit
Atanas K. Maina	Director (KRC)	Exit
Philip J. Mainga	Director (KRC)	Entry
Peter Kid Gibendi	Director	
Mary W. Ngari	Director	
Alice M. Mwaisaka	Director	
Conrad Thorpe	Director	
Dr. Peter N. Muracia	Director	
Valentine Mwakamba	Director	
Delilah Ngala	Director	Exit-November 2018
Addraya E. Dena	GM, Board & Legal Services	Entry-February 2019
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 (Cont'd.)

### 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](http://www.kpa.co.ke)

**Mombasa**

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### Corporate Secretary

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

**Mombasa**

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### Independent Auditor

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

**Nairobi**

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### Principal Legal Adviser

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

**Nairobi**

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### Principal Bankers:

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

**Mombasa**

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

**Mombasa**

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

**Mombasa**

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

**Mombasa**

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

**Burundi**

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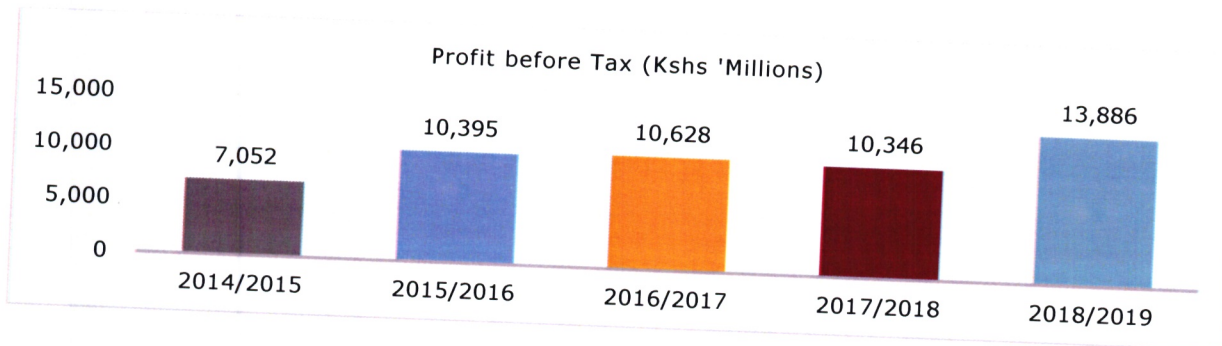
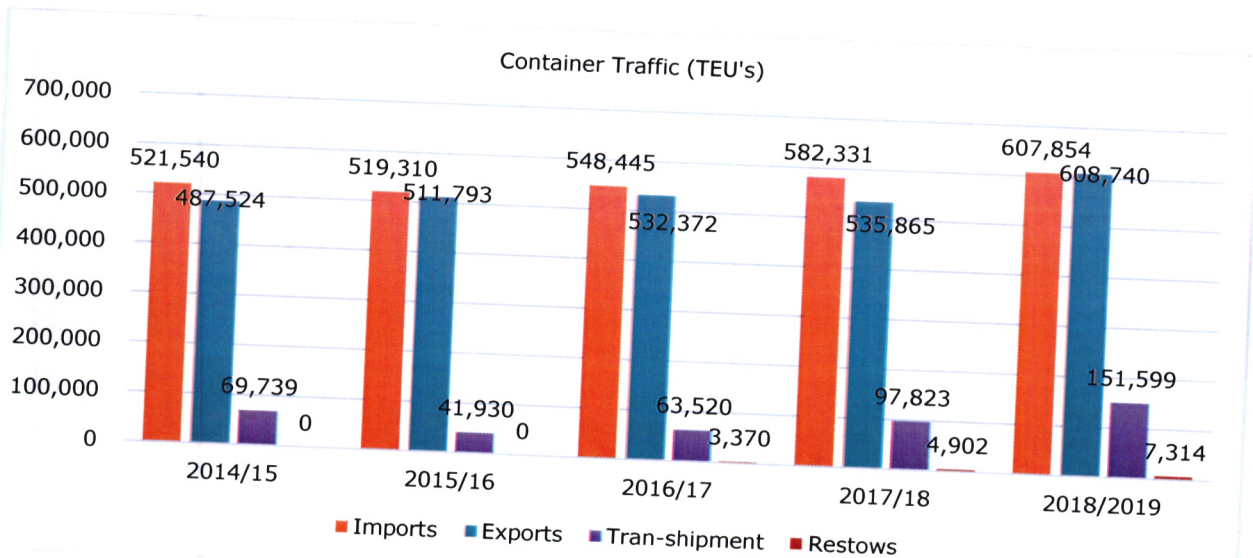
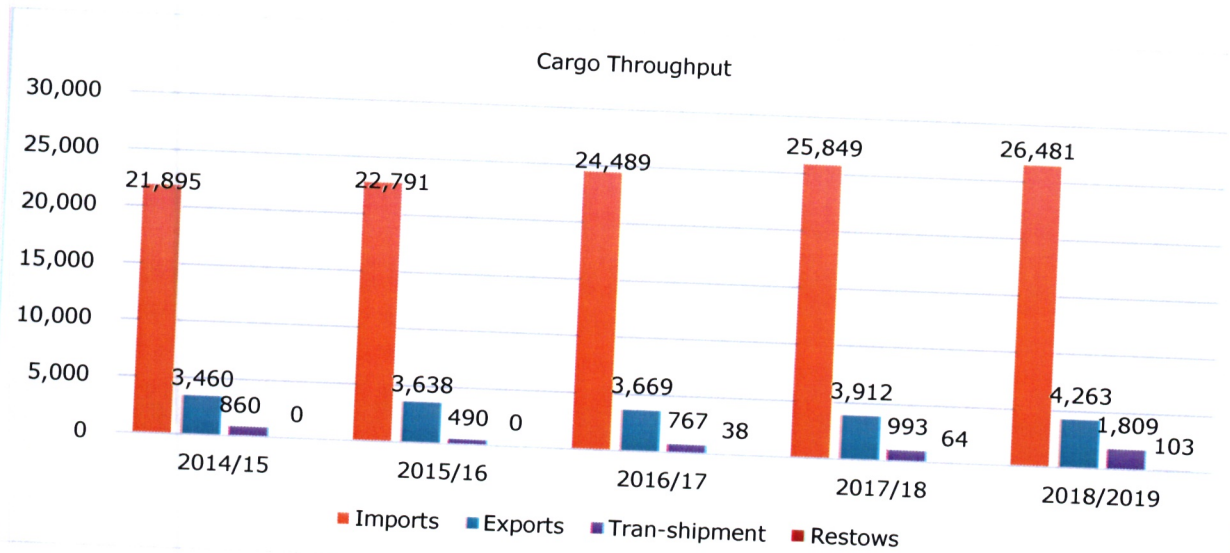
Stanbic Bank  
Crested Towers Plot 17, Hannington Rd  
P.O Box 7131

Kampala

**Uganda**

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## THE YEAR IN REVIEW



## THE YEAR IN REVIEW

### Operations

The Authority's operational performance continued in an upward trend. MV MSC Maxine recorded 1,450 gross moves per eight hour shift on container vessels. The vessel MSC Maxine was in her maiden call at the Port of Mombasa. This performance outdid last year's record of container carrier Livorno of 1,265 moves, and in November 2018 MV Ever Diamond recorded, 1,523 moves, the highest ever. Equally, the vessel recorded an average of 190 gross moves per hour. The record is inching towards 200 moves per hour which is associated with top global ports. Gross moves per hour is a maritime productivity term that defines the total container movement on loading, offloading and repositioning divided by the number of hours for which the vessel is at berth.

1,523 moves

The Authority received the biggest bulk carrier vessel in its history. The vessel had a length overall of 199.9 meters a breadth of 32 meters and a carrying capacity of 63,939 tons. The ship was discharging 50,500 metric tons of fertilizer for the Kenya Tea Development Agency (KTDA).

MV Lowlands Mimosa

The Authority acquired a new Kshs 1.26 billion state of the art tugboat to boost efficiency at the crucial marine operations. The new 75 Bollard Pull (BP) tugboat is the first of its kind in East and Central Africa and enhanced marine operations including berthing and un-berthing of ships. She becomes the largest tug in a fleet of five. Christened EUGENE, the Azimuth Stern Driven (ASD) tug arrived at the Port of Mombasa after a 26-day's journey from the Cheoy Lee Shipbuilders in China. The tug is named after the late Capt. Eugene Okoth, who passed on whilst performing pilotage duties on board an inbound vessel (car carrier) on a 3rd Shift at 0100hrs in April 2016.

### East Africa Maritime Awards (EAMA)

The Authority launched the awards that seek to recognize and award notable users of the Port of Mombasa. The awards aim to set performance standards by encouraging port users towards a more collaborative approach to regional trade while taking cognizance of the praiseworthy achievements by individual players.

## THE YEAR IN REVIEW

### Staffing, Development & Welfare

A total of 16 new employees were recruited in the financial year. This included the General Manager of Human Resource and Administration, staff in medical services, operations and security departments. The composition of 6,791 employees at the close of the year is as shown below;



Ports and the shipping business in general remain one of the most male-dominated industries in the world. The Authority is making deliberate efforts to increase the number of female staff in its organization structure.

**1,531** staff were given refresher courses and trained at Bandari College as part of staff development to ensure they keep abreast with the work circumstances and changes in the business environment, technology & customer needs. These courses are mainly operational, administrative and technical & marine courses.

### Social Values

The Internship Program which develops a pool of young talent to be exposed to Port operations in support of the Government's Youth Initiative to develop and expose them for the Kenyan Labour Market saw 52 interns engaged from April 2018 to February 2019 in the program.

# MANAGEMENT DISCUSSION AND ANALYSIS ON PORT PERFORMANCE

## 1. INTRODUCTION

Management wishes to present an analysis of the Authority's financial performance for the period ended 30th June 2019.

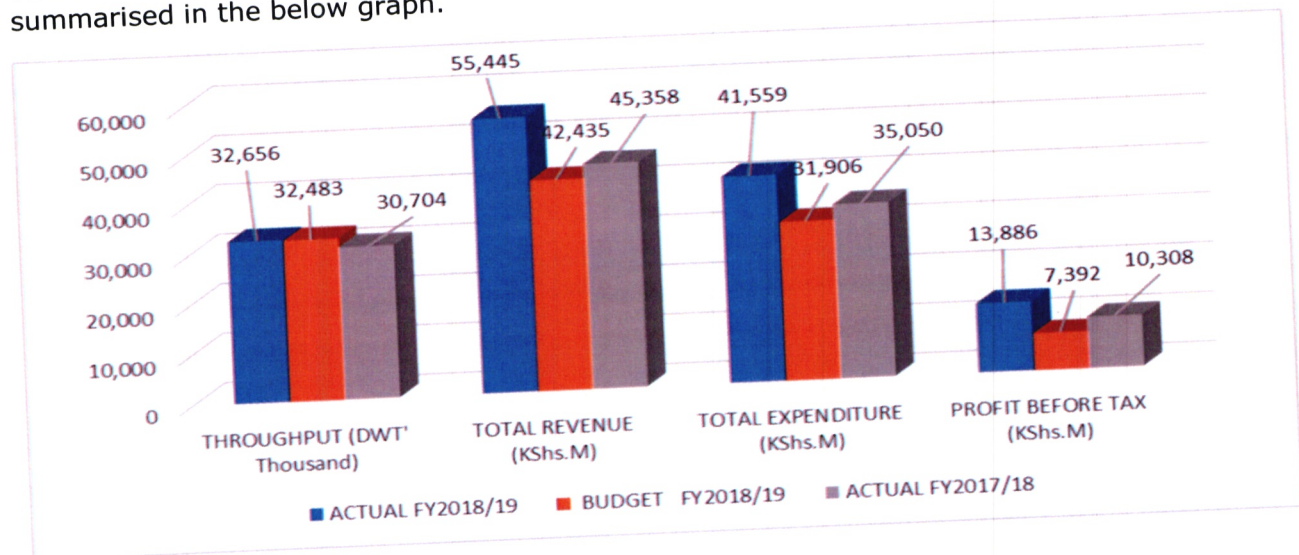
### 1.1. END-YEAR PERFORMANCE SUMMARY OVERVIEW

The below table summarises the performance as at 30<sup>th</sup> June, 2019 on revenue, expenditure and profit achievements as under.

	ACTUAL FY2018/ 2019	BUDGET FY2018/ 2019	% Actual/ Budget	ACTUAL FY2017 / 2018	% Actual / Actual
THROUGHPUT (DWT' Thousand)	32,656	32,483	0.53%	30,704	6.36%
TOTAL REVENUE (Kshs Millions)	55,445	42,435	23.46%	45,358	22.24%
TOTAL EXPENDITURE (Kshs Millions)	41,559	31,906	23.23%	35,050	18.57%
PROFIT BEFORE TAX (Kshs Millions)	13,886	7,392	46.77%	10,308	34.70%

#### 1.1.1. THROUGHPUT HANDLED REVENUE AND EXPENDITURE PERFORMANCE OVERVIEW

The financial performance for the year compared to throughput and budget may be summarised in the below graph.

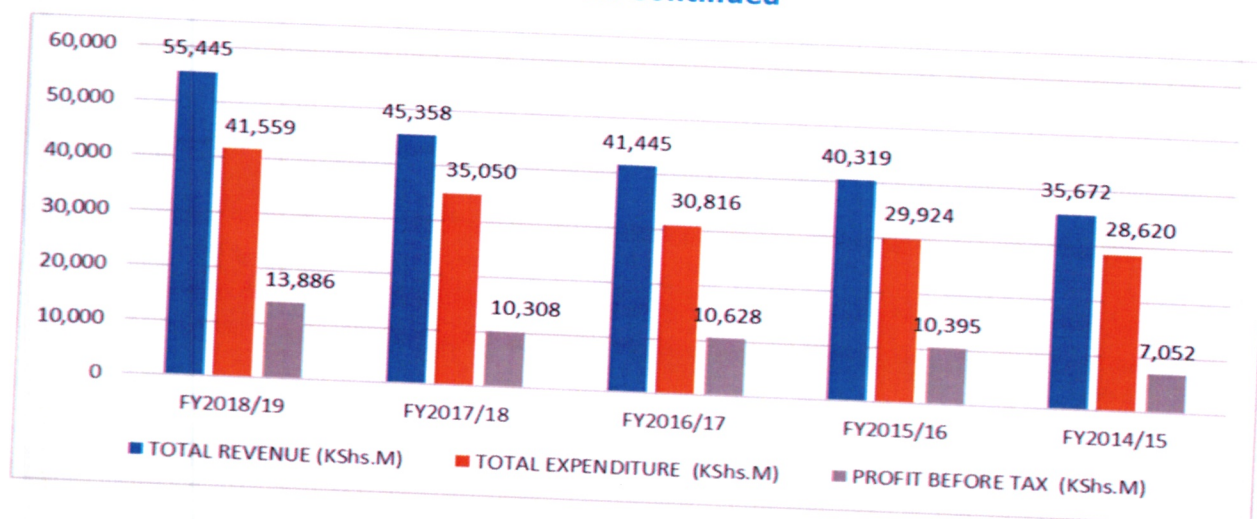


#### 1.1.2. FIVE-YEAR PROFIT PERFORMANCE OVERVIEW

Profitability margins have been growing thus registering improved performance over the years. A look at the past five years reveals a growth in Revenues, expenditures and profit margins with an exception of the year 2017/18 where profit was lower at Kshs 10,308 million compared to the previous performance for Kshs 10,628 million registered in FY2016/17. The lower profit recorded was due to impairment provision for a doubtful investment for Ksh 3,031 million which had been deposited in Chase bank. The bank has since been liquidated.

## MANAGEMENT DISCUSSION AND ANALYSIS ON PORT PERFORMANCE

### Five-year Profit performance Overview Continued



### 1.2. THROUGHPUT OVERVIEW

The Port throughput performance continue to record increased cargo compared to previous periods. The Authority registered 32.6 million DWTs in the FY 2018/2019. This is a growth of 6% or 1.8 million DWTs from 30.8 million DWTs recorded in the same period of 2017/18. The performance was marginally above the budgeted throughput of 32.48 million DWTs by 173,420 DWTs or 0.53%.

Containerised cargo recorded the highest volume increase at 14.2 million DWTs compared to 11.9 million DWTs recorded in the last financial year, resulting into a growth of 2.3 million DWTs or 19.3%. Non-containerised cargo decreased to 18.4 million DWTs compared to 18.9 million DWTs in the previous financial year, a decrease of (456,343) DWTs or (2.4) percentage. The decrease was on Dry bulk & conventional cargo like wheat, maize, fertilizer, steel iron and other building materials.

Performance overview by broad categories:

- **Imports:** recorded 26.3 million DWTs in the FY 2018/2019 against 25.8 million DWTs recorded in similar period in FY 2017/2018, representing an increase of 632,138 DWTs or 2.4 %.
- **Exports:** recorded 4.26 million DWTs in FY 2018/2019 against 3.9 million DWTs recorded in the same period in FY 2017/2018, representing a volume increase of 351,156DWTs or 9.0%.
- **Transshipment:** recorded higher volumes posting 1.8 million DWTs of cargo in FY 2018/2019 compared with 993,659 DWTs handled in the corresponding period in FY 2017/ 2018 reflecting an increase of 815,888 DWTs or 82.10%. The marketing efforts initiated by management together with the relaxation of customs procedures are continuing to bear fruits as demonstrated by the growth in transshipment business.

## MANAGEMENT DISCUSSION AND ANALYSIS ON PORT PERFORMANCE

### THROUGHPUT OVERVIEW CONTINUED

The volume decrease on non-containerised cargo is generally attributed to the following key factors:

- a) Importation of wheat went down during the period under review due to escalating world prices of wheat. This was brought about by decline in wheat production from Russia and Argentina, the key world suppliers.
- b) Government strict rules pertaining to counterfeit goods scared away some importers who were specialising in such commodities. This development, to some extent, had a negative impact on volumes of imported cargo.
- c) The building industry slowed down to a growth of 6.3% in FY 2018/19 from 8.5% increase registered in FY 2017/18, thereby impacting negatively on importation of products mainly used in the construction and building industry contributing to downward trend in volumes handled.
- d) Importation of fertilizers went down comparatively by about 25.9% in the just ended financial year. Some sources hint at the cause of the shortfall being blamed on stringent import terms. Port clearance hurdles and hefty inspection costs, as well as demurrage charges and regulatory frustrations as having been cited as the reasons making fertilizer too costly for farmers.

### 1.3. REVENUE PERFORMANCE

Revenue performance recorded an improvement in the current period recording Kshs.55,445 million against last year's figure of Kshs.45,358 million. This reflected a growth by Kshs. 10,087 million or 22.2%. The performance was also above the final budget figure of Kshs.46,158 million by Kshs.9,287 million favourable variance or 16.75%.

Operating revenue contributed to revenue of Kshs 52,759 million compared to Kshs 42,739 million registered in the previous year, generating growth of Kshs. 10,020 million or 23.4%. The growth was mainly due to ICD Nairobi collections on storage and remarking charges. The slow cargo clearance and uptake of cargo by owners resulted in congestion and additional storage and remarking charges. The current volumes handled in ICD Nairobi due to the SGR factor was not anticipated during the budgeting process. The growth in Containerised cargo throughput (TEUs) of 12.7% from 1.2 million Teus to 1.3 million also contributed to the increase.

However, revenue from marine services declined. A total number of 1,609 vessels were handled in the year compared to 1,696 vessels in FY 2017/2018. The lower number of vessels calls led to the decrease in marine revenue. Lower vessel calls implies less navigational dues docking, tug services among others. The operationalization of the 2<sup>nd</sup> container terminal continues to attract ships of bigger capacity and with an improved vessel turnaround time. Below is a table showing the type and number of vessel handled.

## MANAGEMENT DISCUSSION AND ANALYSIS ON PORT PERFORMANCE

	FY 2018/2019	FY 2017/2018
TYPE	NO. OF VESSELS	NO. OF VESSELS
Barge	34	17
Bulk	274	295
Car Carrier	153	151
Container	565	579
Fishing	59	49
Gen Cargo	118	172
Passenger	3	7
Roro	41	41
Tanker	230	218
Tug	43	29
Yacht	4	0
Naval	12	8
Others	73	130
<b>TOTAL</b>	<b>1,609</b>	<b>1,696</b>

Revenue from finance and other income also had a favourable variance. Bank interest earnings brought in Kshs 2,187 million compared to Kshs 1,729 million in FY 2017/2018. Delays in implementation of some projects which had been earmarked for the period under review due to procurement procedures contributed to the growth in cash deposited with banks to earn interest.

### 1.4. EXPENDITURE PERFORMANCE OVERVIEW

Expenditure recorded in the period under review was Kshs 41,559 million. This was above the revised budget figure of Kshs 38,766 million resulting into an adverse variance of Kshs. (2,793) million or (7.2 %). It also exceeded last year's performance of Kshs 34,980 million by Kshs 6,579 million or (18.8 %.)

Expenditure on Overtime and Repairs to Infrastructure work were the major expenditure items that caused the rise in expenditure for the period.

Below are the highlights of the other items with overruns against last year's performance.

- Finance cost went up because of a revaluation deficit of Kshs 148 million and an impairment loss of Kshs 646 million.
- Depreciation went up by approximately Kshs 3 billion because of assets revaluation in compliance with asset management policy and the IFRSs.

## MANAGEMENT DISCUSSION AND ANALYSIS ON PORT PERFORMANCE

### 1.5. 5 YEAR REVIEW OF STATEMENT OF PROFIT OR LOSS

	2018/2019	2017/2018	2016/2017	2015/2016	2014/2015
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Operating Revenue	52,758,959	42,738,520	39,603,677	38,330,411	34,317,150
Other Incomes	498,843	891,023	593,624	497,715	483,413
<b>Total Revenues</b>	<b>53,257,802</b>	<b>43,629,543</b>	<b>40,197,301</b>	<b>38,828,126</b>	<b>34,800,563</b>
<b>Less Expenses:</b>					
Administrative Expenses	(4,044,431)	(3,450,148)	(2,924,092)	(3,194,375)	(2,412,340)
Establishment Expenses	(19,992,244)	(17,789,138)	(16,673,130)	(16,142,193)	(15,959,087)
Other Operating Expenses	(5,976,959)	(4,899,622)	(3,593,881)	(3,600,009)	(3,270,797)
Depreciation of PPE	(10,346,600)	(7,590,886)	(7,482,804)	(6,423,577)	(6,100,239)
Amortization of Intangible assets	(262,568)	(67,877)	(16,252)	(193,852)	(673,149)
<b>Total Operating Expenses</b>	<b>(40,622,802)</b>	<b>(33,797,671)</b>	<b>(30,690,159)</b>	<b>(29,554,006)</b>	<b>(28,415,612)</b>
<b>Operating Profit</b>	<b>12,635,000</b>	<b>9,831,872</b>	<b>9,507,142</b>	<b>9,274,120</b>	<b>6,384,951</b>
Finance Income	2,187,175	1,728,950	1,247,301	1,490,722	871,563
Finance Cost	(166,309)	(170,624)	(142,237)	(501,930)	(146,293)
Impairment (Losses)/Gain	(646,129)	(1,037,395)	(111,913)	(92,652)	35,935
Other Gains/(Losses)	(124,232)	(44,324)	127,949	224,918	(94,050)
<b>Profit before Tax</b>	<b>13,885,505</b>	<b>10,308,479</b>	<b>10,628,242</b>	<b>10,395,178</b>	<b>7,052,106</b>
Tax Charge	(4,137,870)	(3,426,742)	(3,928,448)	(3,760,470)	(3,113,360)
<b>Profit after Taxation</b>	<b>9,747,635</b>	<b>6,881,737</b>	<b>6,699,794</b>	<b>6,634,708</b>	<b>3,938,746</b>

### 1.6. FINANCIAL POSITION

Total assets grew from Kshs 183,900 million in FY 2017/2018 to Kshs 287,315 million in FY 2018/2019 translating to 56% increase occasioned by upward revaluation carried out in the current year in compliance with assets management policy and IFRSs.

#### 1.6.1. NON-CURRENT ASSETS

Non-current assets amounted to Kshs 245,183 million up from 149,341 million in the previous year 2017/2018. The massive increase of 64% is attributed mostly to the revaluation exercise carried out in the year.

During the year, cash deposits including interests amounting to Kshs 1,175 million previously held with Chase Bank Kenya (InReceivership) were remitted to the Authority. As a result of the receipt an impairment charge recognized under Chase Bank deposits was reversed and the cash received was reclassified to cash and cash equivalents. The remaining 37.5% is in SBM fixed deposits account earning 6.3% per annum and will be released in three equal instalments between August 2019 and August 2021. The portion due in August 2019 has been classified as a current portion under short term deposits.

#### 1.6.2. CURRENT ASSETS

Current assets stood at Kshs 42,309 million up from Kshs 34,558 million as at FY 2017/2018, an increase of by 23%. The increase was mainly on account of growth in cash and cash equivalent which was Kshs 7,182 million due to higher revenues and profitability margins coupled with lower off-take of earmarked projects. SBM fixed deposits amounts equivalent to Kshs 376 million due in August 2019 have also been classified under short term deposits.

## MANAGEMENT DISCUSSION AND ANALYSIS ON PORT PERFORMANCE

### 1.6.3. CURRENT LIABILITIES

The balance as at the end of the current year is Kshs 13,775 million compared to previous year's balances of Kshs 7,792 million translating to an increase of 77% mainly on account of unpaid creditors.

### 1.6.4. BORROWINGS

The JICA loan for the 1st phase of the 2nd Container Terminal has now been fully absorbed in KPA books currently standing at Kshs 23,374 million as at 30th June, 2019 with a total of Kshs 786 million being paid in the year. The current portion for FY 2019/2020 is equivalent to Kshs 820 million. The JICA loan for the 2<sup>nd</sup> phase of the 2nd Container Terminal opened with Kshs 6,947 million on 1st July, 2018 and closed with Kshs 10,176 million as at 30th June, 2019 after receiving disbursements equivalent to Kshs 2,855 million. The expenditure so far is mainly on consultancy services and mobilisation.

### FIVE YEAR FINANCIAL REVIEW OF STATEMENT OF FINANCIAL POSITION

	2018/2019	2017/2018	2016/2017	2015/2016	2014/2015
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
<b>Non-Current Assets:</b>					
Property Plant and Equipment	241,554,138	144,614,772	133,409,067	123,242,840	108,495,047
Assets held for Sale	11,618	400	1,224	934	0
Intangible Assets	1,151,296	675,383	487,133	314,333	197,580
Leased Property	717,063	805,819	772,292	814,772	857,251
Long Term Investment	1,748,887	3,244,997	3,973,618	731,288	725,052
Retirement Benefit Asset	0	0	2,980,174	3,808,000	3,675,000
<b>Total Non-Current Assets</b>	<b>245,183,002</b>	<b>149,341,371</b>	<b>141,623,508</b>	<b>128,912,167</b>	<b>113,949,930</b>
<b>Current Assets:</b>					
Inventories	404,813	407,965	410,591	381,501	335,212
Receivables & Prepayments	15,946,216	14,500,357	8,848,612	7,225,670	6,324,493
Tax paid in advance	0	873,216	0	814,510	0
Short term deposits	25,099,818	17,988,504	14,928,395	12,540,442	9,237,884
Bank & Cash balances	859,114	788,363	693,457	599,073	814,571
<b>Total Current Assets</b>	<b>42,309,961</b>	<b>34,558,405</b>	<b>24,881,055</b>	<b>21,561,196</b>	<b>16,712,160</b>
<b>TOTAL ASSETS</b>	<b>287,492,963</b>	<b>183,899,776</b>	<b>166,504,563</b>	<b>150,473,363</b>	<b>130,662,090</b>
<b>Capital and Reserves:</b>					
Revaluation Reserves	111,646,031	39,881,910	43,296,547	48,084,237	52,525,540
General Reserves	90,620,573	78,426,542	73,813,608	61,741,226	49,353,730
Grants	5,318,100	5,044,052	581,153	106,268	121,196
<b>Total Capital and Reserves</b>	<b>207,584,704</b>	<b>123,352,504</b>	<b>117,691,308</b>	<b>109,931,731</b>	<b>102,000,466</b>
<b>Non-Current Liabilities:</b>					
GOK Project Funds	27,386,157	16,212,039	13,041,039	6,456,218	4,456,893
Borrowings	32,729,833	29,493,976	24,166,431	25,384,171	18,016,546
Deferred tax	5,231,256	5,281,505	4,123,829	3,032,682	1,550,537
Retirement benefit obligations	786,300	1,767,500	0	0	0
<b>Total Non-Current Liabilities</b>	<b>66,133,546</b>	<b>52,755,020</b>	<b>41,331,299</b>	<b>34,873,071</b>	<b>24,023,976</b>
<b>Current Liabilities:</b>					
Borrowings	820,134	791,109	810,331	0	0
Trade and other Payables	11,212,048	7,001,143	6,439,802	5,668,561	4,552,553
Retirement benefit obligations	535,200	0	0	0	0
Tax Payable	1,207,331	0	231,823	0	85,095
<b>Total Current Liabilities</b>	<b>13,774,713</b>	<b>7,792,252</b>	<b>7,481,956</b>	<b>5,668,561</b>	<b>4,637,648</b>
<b>TOTAL CAPITAL &amp; LIABILITIES</b>	<b>287,492,963</b>	<b>183,899,776</b>	<b>166,504,563</b>	<b>150,473,363</b>	<b>130,662,090</b>

## CHAIRMAN'S STATEMENT

3



"The Board is keen and committed to ensuring that the needs of the stakeholders are addressed adequately and that is why this Strategic Plan takes a customer centric approach. The Board is so far keeping abreast with the global maritime trends to ensure that the Port of Mombasa and all other upcoming ports operate at global standards for customer satisfaction."

## CHAIRMAN'S STATEMENT

I am delighted to present the Annual Report and Financial Statements on behalf of the Board of Directors for the year ended 30 June 2019. This year engraved a significant mark on the Port Authority's journey as it launched the Strategic Plan for the year 2018-2022 and scoped global recognition for its CSI 'Tunahusika' project

The launch of the Strategic Plan for the 2018-2022 period sets pace for provision of efficient and competitive port services in pursuit of world class ports of choice status. The five-year plan outlines the business direction and key focus areas that KPA will follow in the next five years as it seeks to grow in the maritime trade and establish new markets and partnerships in the region. To realize this vision, the plan is premised on five strategic objectives; to improve port services, to improve customer satisfaction, to sustain business growth, to improve labour productivity and to enhance risk management and environmental sustainability.

In terms of port performance, cargo throughput grew from 30.8 million DWTs in 2018 to 32.6 million DWTs in 2019, representing a growth of 6%. Over the last decade total throughput has grown from 14.4 million DWTs in 2006 to 30.8 million DWTs in 2018. The port capacity grew from 1.1 million TEUs in 2013 to 1.37 million TEUs in 2019.

This growth has created a vibrant economy especially in the capital city of Nairobi and 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 a stable economic environment and the government "Big Four" national development agenda.

The Authority continues to engage stakeholders. Public and private sector participants were engaged on the ports' development strategy and sustainability for the next 30 years. There was need to revise the Master Plan because of the many changes that had occurred in the ever-changing trends in the maritime industry.

The expansion of KPA's mandate to include the management of inland waterways and operationalization of the Standard Gauge Railway (SGR) cargo trains as well as the development of a second commercial Port in Lamu were among the key factors contributing to the review.

The 2018-2047 Master Plan is premised on the vision of developing the two key Ports of Mombasa and Lamu which is still under construction. The Master Plan also envisions revitalization of Kisumu Port to serve regional and local trade on Lake Victoria, development of Dongo Kundu Special Economic Zones and the development of Shimoni Port in Kwale as a hub for industrial fishing. It also contains the expansion of existing Inland Container Depots as well as development of new ones to bring services closer to the clients.

The 2018-2047 Master Plan is premised on the vision of developing the two key Ports of Mombasa and Lamu which is still under construction, with berth 1 expected to be commissioned in late 2019.

## CHAIRMAN'S STATEMENT (CONT'D)

The Authority was also an active participant in the first global conference on the sustainable blue economy. Over 18,000 participants from around the world came together to learn how to build a blue economy that harnesses the potential of our oceans, seas, lakes and rivers to improve the lives of all, particularly people in developing states, women and youth.

### 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 a state of the art pollution control boat to combat oil spillages among other pollution activities that affect marine operations and economy.

The Authority spent at least Kshs 125 million in various CSI initiatives, aimed at impacting positively on the lives of respective communities. These CSI activities were mainly focused on sports, education services, religious initiatives, conferences and charity events and response to distress calls.

During the year, Kenya Ports Authority's Corporate Social Investment (CSI) programme received global recognition from the International Association of Ports and Harbors (IAPH) awards competition. Dubbed 'Tunahusika', the programme was voted the best in the category of Ethics and Governance during the first ever IAPH World Ports Sustainability Awards. The momentous event was staged at the main gala dinner of the IAPH Guangzhou 2019 World Ports Conference.

### Dividends

The directors recommend a dividend payout of Kshs. 731 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 continues to focus 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, development of a cruise ship facility and acquisition of equipment among others. Additionally, the Authority continues to invest in human capital to ensure business continuity and efficiency.

## CHAIRMAN'S STATEMENT (CONT'D)

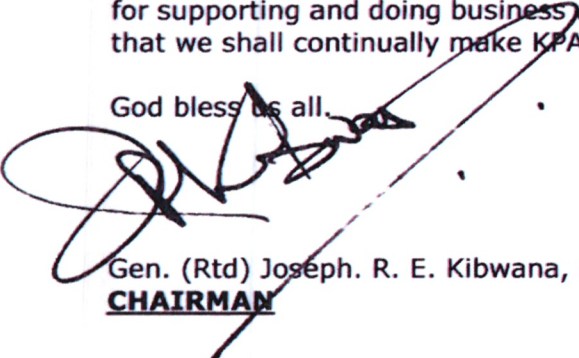
### Risk Management

The Board has in place 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 they 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 sea-ports of choice.

God bless us all.



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

## BOARD OF DIRECTORS



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

He was appointed Chairman of the Board of Directors of 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.



**ESTHER KOIMETT, Ps MoTI & PW (born 1959)**

Mrs. Esther Koimett was appointed in July 2018.

She is a holder of a Bachelor of Commerce degree and a Master of Business Administration degree, both from the University of Nairobi.

Prior to her appointment she was the Investment Secretary, Ministry of Finance. She has held various senior positions in Government and the Parastatal sector, including being the Permanent Secretary, Ministry of Tourism.



**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 the 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.

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

## BOARD OF DIRECTORS PROFILES (CONT'D)



**Delilah K. Ngala  
(born 1960)**

She was appointed to the Board in February 2019.

She holds an MBA (Strategic Management) and B.Com, (Business Administration) both from the University of Nairobi. Currently pursuing diploma in counselling psychology at Amani counselling & training centre. She has served in various Board memberships including Maseno University council member as chairperson executive committee, Pwani university council member as chairperson of the Audit committee, Kenya Tourist Development Corporation as chairperson of the operations committee, Kenya Institute of Bankers as chairperson Mombasa local center, amongst many others.

She is a strategic thinker with over 27 years experience in banks' branch management, operations & unit leadership.

She was a member of the IAAF world under 18 years youth championships, 2017 and has lean six sigma-yellow belt certification from KIM (2014).



**Dr. Peter N. 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 Practitioner 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 among other companies.

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



**Conrad Thorpe  
(born 1964)**

He joined the Board in June 2018.

An industry leader with 15 years of experience of 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. As a youth he excelled at sport, playing rugby for the 1<sup>st</sup> XV for Kenya Schools and representing his country as the Captain of the national swimming team.

## BOARD OF DIRECTORS PROFILES (CONT'D)



**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).

She holds a Bachelor's degree in Community Development and Communications from Daystar University, MBA in Global Business and Sustainability (Social Entrepreneurship and Management) from Università Cattolica del Sacro Cuore, Milan, Italy and MSc. in Project Management from Sunderland University, UK.

She is a seasoned professional administration and project manager with 15+ years' experience in the UN System having worked for United Nations Educational, Scientific and Cultural Organization (UNESCO), International Maritime Organization (IMO), United Nations Development Programme (UNDP) and International Labour Organization (ILO). She is conversant and extremely knowledgeable of the development landscape and UN System in Kenya as well as various national and regional projects and programmes. She has been involved in different aspects of programme/project life cycles and delivered high-value projects in various organizations and across different geographies.

She has also been the National Project Coordinator for the International Labour Organization (ILO Kenya) responsible for the coordination and implementation of the Green Jobs programme.

## BOARD OF DIRECTORS PROFILES (CONT'D)



**Philip J. Mainga**  
(born 1967)  
**Ag. Managing Director**  
**KRC**

He holds Master of Arts - Economics, Masters in Project Planning and Management (MAPM) (University of Nairobi). He is a member of Certified Finance Management for Project Managers (FMPM), Associate member MEGADEV Consultants and Associate member Kenya Institute of Management (KIM).

Before being appointed the Acting MD, he was the GM Business and Operations, a role that covered the operations of the Madaraka Express, SGR Freight services and Estates management.

He has over 20 years in the Planning and Research profession and has worked in several capacities holding Corporate Planning and Research Manager Position.

Mr. Mainga is author of Economics and Ethics first edition 2010 - (Book), doing business in Kenya 2006 - Hand book (UNDP -KENYA).



**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.

**MANAGING DIRECTORS'S PORT REVIEW**



“The port of Mombasa has outlined plans to handle two million containers annually by 2022 ”

## MANAGING DIRECTORS'S PORT REVIEW

### Introduction

It is with great pride that I present Kenya Ports Authority Annual Report and Financial Statements for the year ended 30th June, 2019. This year reflected a strong financial performance with profit before tax hitting an all-time high of Kshs 13,886 million and the accomplishment of launching the Strategic Plan of 2018- 2022.

### Operational Performance

The Port of Mombasa operational performance continued in an upward trend. Total cargo throughput grew to 32.6 million tons compared to 30.8 million tons in the last financial year an increase of about 6% or 1.8 million tons. There was a notable increase of 82% on Transshipment cargo from 993,659 tons in last financial year to 1,809,547 tons. Kenyan exports, imports and restows also recorded growth of 9.0%, 2.4% and 60.7% respectively. While, Container Terminal and Kipevu Oil Terminal recorded 79% and 84% berth occupancy respectively.

Equally, the Authority's was able to clock 1,450 gross moves per eight-hour shift on container vessels MSC Maxine. The vessel was in her maiden call at the Port of Mombasa. This performance outdid last year's record of container carrier Livorno of 1,265 moves and in November 2018 MV Ever Diamond recorded, 1,523 moves, the highest ever. The vessel also recorded an average of 190 gross moves per hour.

### Financial Performance

Remarkably total Revenues (including Finance Income) realized during the year was Kshs 55,445 million compared to Kshs 45,358 million in FY 2017/18, a growth of 22.2%. The growth was mainly on storage and remarshalling charges due to expansion of the Nairobi Inland Container Depot and Second Container Terminal operations.

Net Assets continued to grow totaling Kshs. 287,493 million from Kshs 183,900 million (FY 2017/18) increasing by 57% which is mainly attributed to the revaluation of assets. Ongoing capital works related to port expansion and operational equipment acquisitions also increased from Kshs 14,040 million (FY2017/18) to Kshs. 30,947 million in the reporting year, an increase of 120.4%.

### Investments and strategic plan

The Strategic Plan 2013 – 2017 witnessed major developments in port infrastructure and improvements in port performance. Notable infrastructure developments include; completion and operationalization of Phase I of the Second Container Terminal, expansion of the Nairobi Inland Container Depot (NICD), construction of the Lamu Port first three berths to almost 60-70%, expansion of port entry and exit gates and yards, and full installation of the Integrated Port Security System, just to mention but a few.

## MANAGING DIRECTOR'S PORT REVIEW (CONT'D)

### Investments and strategic plan continued

During the year, KPA launched the Strategic Plan for 2018- 2022. The strategic plan is aimed at guiding the Authority's strategic direction over the next 5 years. In developing the Plan, the focus of the Authority was on strategic investments to modernize existing facilities in tandem with future industry demands. This entails developing new port infrastructure, acquisition and modernization of equipment, and devising innovative ideas that will improve and sustain efficiency, informed by high quality research, innovation and knowledge management.

Further, in determining priority projects for this plan period, considerable weight was given to the Authority's mandate and core activities. Projects are prioritized on the basis of the following key considerations:

- Realignment to Vision 2030 and the 3rd Medium Term Plan (MTP III);
- Alignment to the Sustainable Development Goals;
- Alignment to the "BIG FOUR" national agenda, earmarked for implementation namely:
  - Food Security;
  - Affordable Housing;
  - Manufacturing and
  - Access to universal Healthcare.
- Sustaining KPA's core services and with high income generating potential

Our Vision is to be "World Class Ports of Choice", and the Mission is to "Provide Efficient and Competitive Port Services to Facilitate Global Trade". In order to mobilise ourselves towards the achievement of our long term Vision and our Mission, we have premised our strategic model on special themes, uniquely crafted to demonstrate our commitment and purpose, these are; Operational Excellence, Customer Service Excellence, Business Growth and Good Governance.

There was also need to revise KPA 30 years Master Plan because of the many changes that had occurred in the recent years to match the ever-changing trends in the maritime industry. The expansion of KPA's mandate to include the management of inland waterways and operationalization of the Standard Gauge Railway (SGR) cargo trains as well as the development of a second commercial Port in Lamu were among the key factors contributing to the review.

The 2018-2047 Master Plan is premised on the vision of developing the two key Ports of Mombasa and Lamu which is still under construction. The Master Plan also envisions revitalization of Kisumu Port to serve regional and local trade on Lake Victoria, development of Dongo Kundu Special Economic Zones and the development of Shimoni Port in Kwale as a hub for industrial fishing. It also contains the expansion of existing Inland Container Depots as well as development of new ones to bring services closer to the clients.

The construction of the first three berths of Lamu ports under the LAPSSSET corridor is in progress and is about 60-70% complete; berth 1 is expected to be commissioned by late 2019. The development of Kisumu port is also at an advanced stage.

## **MANAGING DIRECTOR'S PORT REVIEW (CONT'D)**

### **Investments and strategic plan continued**

In recognition of human capital as an important asset, the Authority continues to improve on its Labour relation, productivity and capacity to match the status of world class ports. The 2018/2019 Collective Bargaining agreement for unionisable employees was registered in July 2018 at the Employment and Labour Relations Court in Nairobi. I continue to encourage promotion of sporting activities and urge all the sportsmen and women to endeavor to remain exemplary KPA brand ambassadors.

### **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.

During the year, the Authority built capacity of its members of staff through sensitization, training and awareness on ethics and corruption prevention. This was aimed at combating and preventing corruption, unethical practices and promotion of best governance practices in the organization in fine with the Ethics & Anti-Corruption Commission Act. 2011 the Leadership & integrity Act. and the Public Officers 2003.

### **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.

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.

## MANAGING DIRECTOR'S PORT REVIEW (CONT'D)

### Safety, Health and Environment continued

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

### •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

**Dr. Arch. Daniel O. Manduku**



### •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, Management Accounting, Commercial and Procurement and Supplies departments.

**CPA Patrick W. Nyoike**



### •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.

**Addraya Dena**



### •General Manager, Human Resources and Administration

•He holds Masters in Business Administration (MBA) from Eastern & Southern Africa Management Institute (ESAMI) TZ and Maastricht School of Management, Bachelors of Education Arts (Kenyatta University), Higher National Diploma in Human Resources Management – KNEC, Kisumu Polytechnic.  
•He has undertaken various professional training in Strategic Leadership Program, Quality Management Systems (KBS), Kenya Labour laws(IHRM), Human Resources Management and Development (ESAMI), Diploma in Marketing (Institute of Commercial Management) and in Management (University of Witwatersrand Johannesburg).  
•He has vast experience in HR profession having served in various Government Ministries in different capacities namely; at the Directorate of Personnel Management and Ministry of State for Provincial Administration and Internal Security as the Principal Human Resources Management Officer and went on to work for the Ministry of State for Public Service on the same capacity and later joined Agricultural Finance Corporation (AFC) as the General Manager Human Resources & Administration and most notably as a Commissioner and Vice Chair at the Salaries and Remuneration Commission (SRC).

**Daniel O. Ogutu, MBS, EBS**



## MANAGEMENT TEAM

### •General Manager, Engineering Services

- 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).
- His docket includes Marine Engineering, Terminal Engineering and Mechanical Engineering as well as Head of Inland Waters.

**Rashid K. Salim IMarEng ; IEng;  
MIMarEST**



### •General Manager, Infrastructure Development

- He is a former Director of the Board at the National Water Conservation & Pipeline Corporation. A Civil Engineer by profession, he has over sixteen (16) years of progressive experience in both the construction & manufacturing industries, business management, logistical management and people skills gained through working in various organizations. He has had the opportunity to implement and oversee various engineering and logistical projects and operations both locally and internationally where he has held responsible positions.
- He has been a former Chief Manager Technical Services at the Lake Victoria South Water Services Board and has over 30 years' experience in the water sector.
- His docket covers Civil Engineering, Project Development & Management and Port Electrical Engineering Departments.

**Eng. Vincent S. Esyepet**



### •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.

**Captain William K. Ruto, MNI**



### •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.

**Edward Kamau**

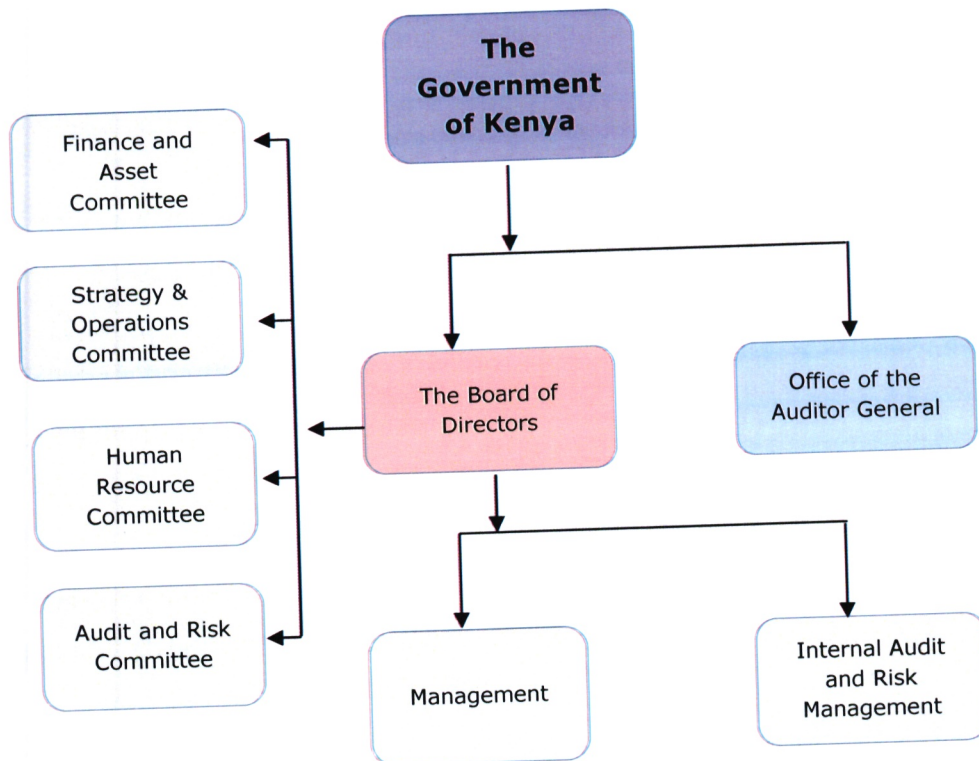


## CORPORATE GOVERNANCE & RISK MANAGEMENT

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. The Authority was also certified ISO 9001:2015 Quality Management System in May 2018.

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; 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' and biographies are shown on pages 5 and 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.

## STATEMENT OF CORPORATE GOVERNANCE (Cont'd)

### Board Changes in the Year

Mrs. Delilah K. Ngala joined the board on 8th February 2019 while Mr. Valentine Mwakamba term expired on 1<sup>st</sup> November 2019

### 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 directors subject to approval by the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works and the National Treasury. Non-executive Board members not representing any Government institutions are paid directly while those representing the Government and/or its institutions are paid to the Cabinet Secretary, National Treasury as a body corporate. All Directors are paid annually Kshs 600,000 or pro rata for any part served thereof, for each eligible Director. The Authority granted no loans to its Directors during the year. The Directors' remuneration has been disclosed in the books of accounts under note 8.

No bonuses were paid to the Directors during the year. The Directors are also paid a sitting allowance of Kshs 14,000 per sitting and are provided with personal insurance cover.

## STATEMENT OF CORPORATE GOVERNANCE (Cont'd)

### Board Induction and Continuous Skills Development

New Board members are provided with an induction programme in order to familiarize themselves with their responsibilities as directors, general principles of corporate governance and Board practices. The new Board Members visited the Lamu port project to gauge progress and status. They also visited the Shimoni port which is a strategic small port project to understand its gains and challenges. They were also given an orientation of the organization, strategic plans, financial status and policies, risk management, compliance programs and the Code of Conduct and Ethics. The Authority embarked on training program for the new Directors aimed at enhancing skills on managing Board issues and corporate governance both locally & internationally as shown below;

No.	TRAINING	COUNTRY/DATE	MEMBERS
1)	Board Leadership and Legal Governance for State Owned Enterprises	Seychelles (17 <sup>th</sup> June to 21 <sup>st</sup> June 2019)	<ul style="list-style-type: none"> <li>• Peter Gibendi</li> <li>• Delilah Ngala</li> </ul>
2)	Public Private Partnership training	United State (13 <sup>th</sup> May to 24 <sup>th</sup> May 2019)	<ul style="list-style-type: none"> <li>• Festus King'ori</li> <li>• Beatrice Nyamoita</li> </ul>
3)	Executive Board Governance	Dubai (15 <sup>th</sup> April to 19 <sup>th</sup> April 2019)	<ul style="list-style-type: none"> <li>• Conrad Thorpe</li> <li>• Mary Ngari</li> <li>• Njiiri Muracia</li> </ul>
4)	Risk and Audit Training	Kenya 23 <sup>rd</sup> to 24 <sup>th</sup> May 2019	<ul style="list-style-type: none"> <li>• Alice Mwaisaka</li> <li>• Delilah Ngala</li> <li>• Conrad Thorpe</li> <li>• Alex Mbuvi</li> <li>• Beatrice Nyamoita</li> <li>• Gibendi Peter</li> <li>• Mary Ngari</li> </ul>
5)	Board Leadership and Legal Governance for State Owned Enterprises	Zanzibar (20 <sup>th</sup> June to 21 <sup>st</sup> June 2019)	<ul style="list-style-type: none"> <li>• Rtd. Gen. Kibwana</li> </ul>
6)	Mwongozo Training	Kenya 27 <sup>th</sup> June to 29 <sup>th</sup> June 2019	<ul style="list-style-type: none"> <li>• Conrad Thorpe</li> <li>• Mary Ngari</li> <li>• Peter Gibendi</li> <li>• Njiiri Muracia</li> <li>• Alice Mwaisaka</li> <li>• Delilah Ngala</li> </ul>
7)	35 <sup>th</sup> edition World's leading business to business Cruise conference- Miami	United State 8 <sup>th</sup> April to 11 <sup>th</sup> April 2019	<ul style="list-style-type: none"> <li>• Rtd Gen Kibwana</li> <li>• Alice Mwaisaka</li> <li>• Alex Mbuvi</li> </ul>

## STATEMENT OF CORPORATE GOVERNANCE (Cont'd)

### 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 2018/2019 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.

### Compliance with Mwongozo Code

The Authority has endeavored to comply with the Mwongozo Code of Governance for State Corporations in the discharge of its mandate through the Board. It is however recognized that the code will be implemented on a 'comply or explain' basis and organizations will be allowed time to fully comply at a pace that is realistic in their circumstances and to learn from the experience of others. The Authority discloses the following instances of noncompliance; -

- a) The Mwongozo Code of Governance gives parameters for appointment, composition and size of boards of directors. The KPA Act provides for appointment by the Cabinet Secretary of MoTIHUD. In June 2018 the Cabinet Secretary appointed new directors to the Board. KPA is not privy to any advertisement and subsequent interviews by the appointing authority. To date there is no formal process in place for appointment.
- b) Currently there is no financial expert in the Board as constituted. The matter was brought to the attention of the appointing Authority. KPA has no control over who is appointed to the Board.
- c) Rotational appointments - more than half of the Board members were appointed on the same date, contrary to the requirements of Clause (5). Clause 5 is to the effect that the appointing authority shall ensure staggering of Board appointments so that the respective expiry dates of the members' terms fall at different times to ensure continuity.
- d) Governance Audit – KPA had planned for a governance audit to be undertaken in compliance to the Code. The evaluation is supposed to be conducted by SCAC. However, SCAC has not yet rolled out this exercise. They have indicated that they are still training and compiling list of accredited Governance Audit Auditors and thereafter roll out the same. The proposal is to outsource due to capacity constraints.

## STATEMENT OF CORPORATE GOVERNANCE (Cont'd)

### Board Meetings

In compliance to the Mwongozo Code the Board of Directors dedicated adequate time and met as required in order to effectively provide the required governance and leadership. During the year the Authority had twelve (12) regular Board meetings and three (3) Strategic Board meetings with several meetings of the Committees of the Board. The attendances to the meetings is as indicated below;

Director Name	Board Meetings held FY 2018-19									
	Full Board/Special		Finance & Asset		Strategy & Operations		Audit & Risk		Human Resource	
	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
Gen. (Rtd) Joseph R. E. Kibwana – C										
Dr. Arch. Daniel Manduku – MD										
Henry Rotich – (NT)										
Esther Koimett, CBS - (MoTIHUD & PW)										
Prof. Arch. Paul M. Maringa – (MoTIHUD)										
Atanas K. Maina – D (KRC)										
Peter K. Gibendi – D			5	5					7	6
Mary W. Ngari – D			5	5					7	7
Alice M. Mwaisaka – D					3	2	3	2		
Conrad Thorpe – D					3	3	3	2		
Dr. Peter N. Muracia – D			5	5					7	7
Valentine Mwakamba – D					3	2	3	2		
Delilah Ngala – D							3	1		
Alex Mbuvi – AD (AG)					3	1	3	3	7	5
Beatrice Nyamolta – AD (MoTIHUD & PW)			5	5	3	3			7	6
Festus King'ori			5	3	3	1				

All directors are non-executive directors

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

## STATEMENT OF CORPORATE GOVERNANCE (Cont'd)

### Board Committees Composition and Function

The Board operates under a comprehensive structure made up of committees established to assist in discharging its responsibilities and obligations as guided by the State Corporation Act Cap 446, section 9 and Mwongozo Code of Conduct Chapter 1 Section 1.7. 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 Mwongozo Code of Conduct further provides for the establishing of not more than four committees of the Board and for the Authority these are namely; Finance and Assets, Audit and Risk, Human Resources, Strategy and Operation Committees.

All committees have at least four non- executive directors as members. The chair of the committees is 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. The Committee examines all the financial aspects of the Authority including monitoring of budgetary performance, security of assets both moveable and immovable, land use policies and all other related matters such as procurement plans and financial performance reports. The Committee also exercises the oversight role on procurement.

Director		Date		Meetings		%
		Appointed	To Exit	Held	Attended	Attendance
Peter N. Muracia	Chairperson	8/06/2018	9/06/2021	5	5	100%
Mary Ngari	Member	6/06/2018	5/06/2021	5	5	100%
Peter Gibendi	Member	6/06/2018	5/06/2021	5	5	100%
Delilah K. Ngala	Member	8/02/2019	7/02/2022			
Beatrice Nyamoita	Member			5	5	100%
Festus King' ori	Member			5	3	60%

## STATEMENT OF CORPORATE GOVERNANCE (Cont'd)

### • Strategy & Operations Committee

The Committee focuses on the implementation of the Strategic plan and 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. The Committee focuses on ensuring that port 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		Date		Meetings		% Attendance
		Appointed	To Exit	Held	Attended	
Conrad Thorpe	Chairperson	6/06/2018	5/06/2021	3	3	100%
Alice Mwaisaka	Member	6/06/2018	5/06/2021	3	2	66.7%
Festus Kingori	Member			3	1	33.3%
Alex Mbuvi	Member			3	1	33.3%
Beatrice Nyamoita	Member			3	3	100%
Valentine Mwakamba	Member	2/11/2015	1/11/2018	3	2	66.7%

### • 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 succession plans are in place for senior managers of the Authority. This Committee guides on policies affecting the organizational establishment, allocation of HR, training, regulation of union and management issues and motivation of the Authority's HR in general.

Director		Date		Meetings		% Attendance
		Appointed	To Exit	Held	Attended	
Mary Ngari	Chairperson	6/06/2018	5/06/2021	7	7	100%
Peter Gibendi	Member	6/06/2018	5/06/2021	7	6	85.7%
Peter Muracia	Member	6/06/2018	5/06/2021	7	7	100%
Beatrice Nyamoita	Member			7	6	85.7%
Alex Mbuvi	Member			7	5	71.4%

### • 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.

## STATEMENT OF CORPORATE GOVERNANCE (Cont'd)

### 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. The Committee audits and ensures that management complies with good practices ranging from accounting, safety and any other risks and recommend remedies or any other corrective measures that may be necessary.

Director		Date		Meetings		% Attendance
		Appointed	To Exit	Held	Attended	
Valentine Mwakamba	Member	2/11/2015	1/11/2018	3	2	66.7%
Alice Mwaisaka	Chairperson	6/06/2018	5/06/2021	3	2	67.7%
Conrad Thorpe	Member	6/06/2018	5/06/2021	3	2	67.7%
Delilah Ngala	Member	8/02/2019	7/02/2022	3	1	33.3%
Alex Mbuvi	Member			3	3	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 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.

## **RISK MANAGEMENT**

### **Enterprise Risk Management**

The Authority is committed to managing risks to an acceptable level across all its functional areas to achieve its objectives. The Authority adopts a top down approach with the Board taking overall responsibility of managing Risk. This risk management commitment extends to third party interaction such as suppliers and contractors. The Authority also recognizes that risk management as an integral part of the management process and wants to ensure that risk management is entrenched in the Authority's culture.

### **Risk Management Framework**

The Risk Management framework is aligned to the ISO 31000. The Authority has a clear and robust framework for identifying and managing risks, both at an operational and strategic level. To meet this commitment, risk is every Port User's business.

Effective implementation of risk management programs ensures that the Authority focuses on and anticipates future risks that could impact on its ability to achieve its strategic and operating objectives and then implement effective systems of internal controls to manage or control the risks within an acceptable level.

The Authority continuously reviews its risk management framework which provides the foundation for identifying, assessment, mitigating, reporting, monitoring, reviewing and continually improving risk management throughout the organization.

### **Key Risks and Mitigation strategies**

Risks are classified into two categories; Strategic and Operational. The following are KPA's overarching Strategic risks and mitigation strategies to ensure that the Authority achieves the set corporate objectives.

## RISK MANAGEMENT (CONT'D)

Risk	Mitigation strategy
<b>Strategic Risks</b>	
<p><b>Financial Risks</b> Key among the financial risks that the Authority faces include forex volatility, revenue leakages, cost control challenges, inflexible tariff regime and high gearing ratio due to inadequate funding.</p>	<p>The Authority has included forex volatility in the proposed tariff which is under review. Strict adherence to the credit policy is now being enforced in line with recommendations of Revenue Leakage Committee. The operationalization of the Lamu Port and the proposed Shimoni port are some of the projects under consideration for implementation through the PPP model. Cost control strategies that are now being implemented include;</p> <ul style="list-style-type: none"> <li>• Strict adherence to the procurement plan</li> <li>• Confirmation of budget availability before financial commitment is done</li> <li>• Ensuring that procurement is in the best interest of the Authority and in line with Public Procurement and Disposal Act (2015)</li> <li>• Ensuring that KPA gets value for money in procurements.</li> <li>• Adequately and effectively addressing the need for the procurement.</li> <li>• All procurements/projects are supported by feasibility study with clear recommendations</li> <li>• Undertaking of cost benefit analysis</li> </ul>
<p><b>Congestion at the Port and evacuation of Cargo through SGR</b> The Authority embarked on strategies to ensure efficient cargo offtake with an objective of increasing yard capacity both at Kipevu and the Inland Container Depot in Nairobi and the proposed dry port at Naivasha.</p>	<ul style="list-style-type: none"> <li>• Kenya Ports Authority has enhanced its cargo holding capacity through off hook railing of cargo to ICD-N by SGR thereby increasing the capacity of yards and the stacking areas. Expansion of Kipevu road is currently ongoing.</li> <li>• Cargo destined for Nairobi and beyond is now being consolidated for transport on SGR.</li> <li>• To ensure cargo fluidity at the gates, the Authority has in place better coordination between Security and Operations departments.</li> <li>• The Board during its blue-sky strategy session held on 23rd and 24th January 2019 directed that management sets out to identify land in Naivasha. Arrangements are underway to comply within the confines of the requisite laws.</li> </ul>
<p><b>Failure to report cases of Corruption</b> The Authority has contained cases of corruption through sensitization on corruption prevention and the importance of Reporting Corruption incidences for both staff and external stakeholders</p>	<p>Continuous staff sensitization is being conducted while Sensitization to external stakeholders' is scheduled to be undertaken. The Authority has also established a monthly scheduling and monitoring of Departmental Corruption Prevention Committees (CPCs) and evaluation of their performance.</p>

## **SUSTAINABILITY STATEMENT (Cont'd)**

### **Health and safety Programs**

The safety branch of the Authority takes the primary role of ensuring compliance to OSHA 2007, which provides regulations to ensure the safety of persons in the port and safe work environment.

To achieve this mandate the Safety Branch has put in place various Programs aimed at:

- Creating safety awareness and sensitization to all persons in the port.
- Ensuring safe cargo handling including dangerous cargo.
- Identifying work place hazards and risks and recommending control measures.
- Identifying accident root causes and recommending corrective actions.

These Programs include:

### **Safety Training, Awareness and Sensitization**

This is an ongoing programme that involves sensitizing staff and port users (contractors and visitors) on safety matters in the port. The trainings are carried out as modules in all training courses at Bandari College and a few select courses on safety including Industrial Safety Course, Handling of hazardous cargo course and HSE induction course.

There is a running programme for awareness and sensitization of staff of the various departments in the Authority. Induction for contractors is carried out before contractors commence work.

### **Workplace Inspections, Risk Assessments**

Daily workplace inspections are carried out at various workplaces to ensure the work environment is safe and that safe work practices are adhered to. Inspections are carried out in line with monthly inspection schedules covering all port areas.

Risk assessments are carried out on the various work process to identify and control hazards and risks associated with the processes. Four risks assessments are carried out monthly. The risk assessments are carried out together with process owners for ownership and recommendations addressed to relevant action officers.

### **Occupational Health and safety (OSH) Audits**

OSH audits are a statutory requirement in the Occupational Safety and Health Act and are carried out annually by approved Health and Safety Advisor. The audits cover all workplaces, processes and facilities in all areas under the jurisdiction of the Authority.

The previous audit was carried out in April 2018, covering Mombasa, ICDN and Lamu Jetty. This year's audit is scheduled to be carried out after completion of the procurement process currently underway.

## SUSTAINABILITY STATEMENT (Cont'd)

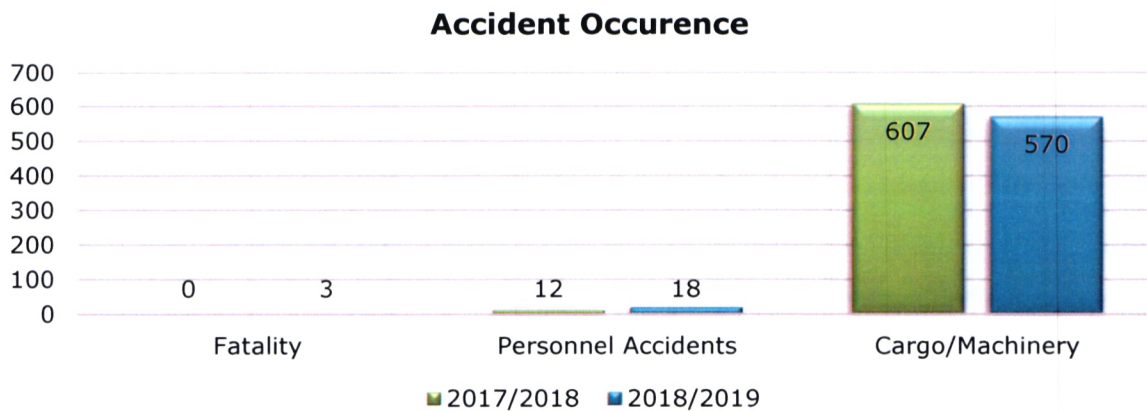
The Safety and Health Audit covers all KPA activities and facilities in Mombasa Port, Lamu Jetty and the ICDN.

Specifically, the Audits cover: The KPA Health, Safety and Environment Management System, Plant, Equipment and Installations, Facilities, Infrastructure, Operations, Processes and Services guided by the Occupational Health and Safety Act 2007 audit guidelines.

### Accident occurrence

The Authority has in place a health and safety policy in line with the requirements of the Occupational health and safety Act, 2007. The policy denotes the Authority's commitment to ensure the safety of persons and that the Port is maintained as a safe work environment.

There was an increase in the fatality rate and personnel accident rates. There was however a reduction in the cargo and machinery accident rate.



### Periodic Statutory Medical Examination

This is an annual activity that is aimed at identifying staff prone to occupational illnesses due to the nature of work and the work environment and to take measures to protect the workers.

In the year under review, medical examinations were carried out in the months of November 2018 & February 2019. Two thousand four hundred (2,400) staff were assessed.

Following the examinations, eight (8) staff were recommended for redeployment and one hundred and twenty-eight (128) staff for further medical management. These recommendations were brought to the attention of the Head of Human Resources and Head of Medical Services for action.

## **SUSTAINABILITY STATEMENT (Cont'd)**

### **Safety Committees**

Departmental Safety committees are scheduled to be held monthly in each department to discuss safety matters affecting staff and work. The meetings provide a forum for staff participation in matters of health and safety in the workplace.

The Authority currently has sixteen committees in departments as follows:

- i. Marine Operations
- ii. Marine Engineering
- iii. Container Operations
- iv. ICD Nairobi
- v. Terminal Engineering
- vi. Conventional Cargo Ops
- vii. Electrical Engineering
- viii. Medical Services
- ix. Civil Engineering
- x. Conventional Cargo Eng.
- xi. Procurement & Supplies
- xii. Project Development
- xiii. Bandari College
- xiv. Human Resources
- xv. Finance
- xvi. Logistics

### **Fire safety:**

The Authority has a fully-fledged Fire and rescue service which carries out the following key activities:

- i. Conducting training on fire safety to employees and port users.
- ii. Provision and maintenance of firefighting equipment and facilities.
- iii. Responding and attending to fire emergencies.
- iv. Providing rescue services.
- v. Providing ambulatory services to employees and port users

### **Administration of First Aid**

The Authority has one hundred and thirty-four first boxes (134). Inspection of first aid boxes located at all work places is carried out daily to ensure they conform to requirements. Replenishment of said boxes is carried out on need basis.

Training of first aiders to man these first aid boxes is done in coordination with St. Johns. The authority has over 1,500 trained first aiders. 59 new first aiders were trained in the financial year 2018/2019.

## SUSTAINABILITY STATEMENT (Cont'd)

### Safety Enforcement

To ensure compliance with port safety rules and regulations, Safety enforcement exercises are continuously carried out to enforce safe practices in the port. These are carried out together with Port Security Officers and Port police. These ongoing activities include:

1. Monitoring of contractors: This is done periodically during the working time of a contractor to ensure they are working safe.
2. Port Roads Speed limits: Speed cameras have been installed along port roads and the same are being monitored at the security control room and the safety office. Over speeding motorists are flagged, and appropriate action taken.
3. Alco-blows: Alco blows are sporadically administered with the assistance of port police. Offenders are prosecuted.
4. PPEs compliance: Enforcement PPEs compliance in operational areas is ongoing. Supervisors on the ground must assist in enforcing this requirement.
5. Traffic Offences: Monitoring of safe road practices by motorists is an ongoing activity.

### 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.

The KPA Board Chairman Gen. (Rtd) Joseph Kibwana and Managing Director Dr. Arch. Daniel Manduku joined stakeholders for a consultative forum on the Authority's 2018-2047 Master Plan. The deliberations held at a Mombasa hotel in January 2019 involved public and private sector participants, centered on the ports' development strategy and sustainability for the next 30 years. The 2018-2047 Master Plan is premised on the vision of developing the two key Ports of Mombasa and Lamu which is still under construction.

The Master Plan also puts into consideration the impact the expansion and development of the facilities will have on the environment. This includes implementing fully the Green port policy, air and dust emission prevention, port occupational safety and health, energy and water.

In February 2019 the Authority also successfully launched the Strategic Plan 2018-2022 that outlined the development path in the next five years. The plan will guide the Authority in its effort to fulfill its vision of "**World Class Ports of Choice**" and its mission "**To Provide Efficient and Competitive Port Services to Facilitate Global.**"

Kenya Ports Authority has also engaged the National Environmental Complaints Committee and the leadership of Beach Management Units (BMUs) in Kwale County on complaints raised on the ongoing sand harvesting off Tiwi course line. KPA has been holding meetings with stakeholders to explain to them the importance of the project as well as placing mitigation measures including robust monitoring by multi-agencies supervised by marine biologists.

## SUSTAINABILITY STATEMENT (Cont'd)



### **Ethics and Corruption Prevention**

The Authority recognizes that its reputation and good name are amongst its most valuable assets, which could easily be lost by actual or suspected corrupt or unethical behaviour

In this regard, the Authority conducted Ethics and Integrity Awareness Campaign for two weeks from 29<sup>th</sup> October 2018 to 9<sup>th</sup> November 2018. During this period, all staff were sensitized on the importance of Ethics and Integrity as a pillar for our quest to achieve and sustain the Authority's productivity and reputation in line with the Ethics & Anti-Corruption Commission Act 2011, the Leadership & Integrity Act 2012 and the Public Officers Act 2003.

Employees are encouraged to approach management and Ethics & Integrity department whenever they have questions about what to do in difficult situations and when they want to voice concerns about known violations.

During the year, KPA Managing Director Dr. Arch. Daniel Manduku rewarded two members of staff for demonstrating their commitment in the fight against corruption.

The two officers based at the Inland Container Depot Nairobi (ICDN) Messrs. Godfrey Nyamu and Newton Mwachoki, an assistant superintendent and a Docker respectively were recognized during the weekly stakeholders meeting held at the ICDN for declining to take bribes.

## SUSTAINABILITY STATEMENT (Cont'd)

### Staff, Values & Processes

In the year under review, 16 employees were hired while 244 employees exited the port. Staff hired included the General Manager Human resource and Management, 4 junior managers in medical services and 10 union staff in operations and medical departments.

At the close of the year the Authority had a total of 6,800 employees, of which 5,392 (79.3%) are male employees and 1,408 (20.7%) are female employees. Operational areas had 684 (15.5%) women staff out of the total 4,411 operational staff while female staff in non-operational/supportive areas were 724 (30.3%) out of the total 2,389 non-operational staff.

In a bid to ensure that there is adequate representation of female staff especially considering that generally the nature of most port work favors men, for instance in equipment operations, Management made a deliberate attempt to have more female than male staff for certain positions. A good example is Clerical staff in which 57% of those recruited were female. In marketing, 75% of those recruited were females.

The Authority has been successful in boosting the number of women in operational roles. Specific initiatives have seen the numbers of women working in critical functions in marine and stevedoring operations increase. Traditionally seen as a "man's space" the Authority has seen a number of "firsts" including the first marine woman pilot, first women gantry crane operators, and a considerable number of female operators performing the hitherto male dominated Reach stacker and Terminal tractor operations as well.

### Wajibika

Wajibika is a strategic corporate scorecard and transformation plan aimed at enhancing service delivery and performance at the port which is anchored on four major pillars; **customer focus, customer excellence, business growth and governance**, which 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 the year, management staff were guided to develop their scorecards at the beginning of the Performance management cycle. Appraisal documents were created in the SAP Appraisal system as part of end of year performance evaluation against the set deliverables (Performance planning). Performance Based Reward Scheme was also introduced which saw Divisional, Departmental, Sectional staff trained.

## CORPORATE SOCIAL INVESTMENT

The Kenya Ports Authority (KPA) is committed to uplifting the standards of living of the communities within the Coastal region and other areas where it operates. This commitment is entrenched in and supported by our Corporate Social Investment (CSI) Policy.

The Authority has invested enormously in improving education and health facilities in each of the Coastal Counties aimed at assisting and developing the communities to address specific socio-economic needs. It is through this initiative that KPA as a responsible corporate entity continues to positively impact on communities by lessening their burdens through provision of health and education facilities.

The Authority's CSI plan was founded on three basic principles:

- Kenya Ports Authority was the single largest employer within the Coast Province and thus the need to invest in various community projects in each of the districts.
- The Coast region was largely lacking in education facilities, especially for primary schools and thus there was a need for the Authority to invest in promoting this area. This has since extended to include secondary schools as well.
- The Authority also incorporated healthcare as a focus for the outreach programme through construction of healthcare facilities and holding of medical camps.

KPA's Corporate Social Investment Policy is rooted in the organisation's values, guided by international standards and best practices, and driven by its aspiration for excellence in the overall performance of the business. Through the efforts of each of the employees, KPA is determined to take pride in being responsible, respected, and welcomed in every place where it has its presence.

Thus, the Authority mainly contributes to education and health projects. KPA also contributes to other worthy causes such as charities, disaster, relief funds, sponsorship of conferences and is a sponsor of Bandari FC.

During the year, the Kenya Ports Authority's Corporate Social Investment (CSI) programme received global recognition from International Association of Ports and Harbors (IAPH) awards competition.

Dubbed 'tunahusika', the programme was voted the best in the category of Ethics and Governance during the first ever IAPH World Ports Sustainability Awards. The World Ports Sustainability Programme is a global awards scheme that enhances and coordinates future sustainable efforts of ports worldwide and fosters international cooperation with partners in the supply chain.

The momentous event was staged at the main gala dinner of the IAPH Guangzhou 2019 World Ports Conference in April 2019. General Manager Corporate Services Mr. Edward Kamau received the award on behalf of the Managing Director.

## CORPORATE SOCIAL INVESTMENT (cont'd)

According to the conference organizers, the announcement followed over sixty entries from ports around the world that were whittled down to three finalists. The 'tunahusika' CSI booklet shows a sample of the projects that the Authority has supported.

### Education

The Authority constructed 160 bed capacity hostels for Mikahani Secondary School. The school is located off Mazeras – Kaloleni road. It was established in 2009 as a mixed day school and later changed to a day and boarding institution. However, despite the school having a population of 258 students, it has a capacity to board only 70 students, a clear indication of constraints on boarding facilities.



### Health

The Authority sponsored Lamu East Constituency annual medical camp in November 2018. The medical camp targeted 15 villages within the constituency in an effort to bring affordable healthcare and free health information to the community. The Authority also held a medical camp in Bomani Kilifi County. The camp focused on bringing out-patient services to the villages through free medical consultation and treatment of basic ailments, spread awareness among the public on health issues.

### Humanitarian Relief and Conferences

In support to humanitarian relief drives, the Authority participated in several initiatives. The Authority donated Kshs 5 million towards to support vulnerable children living with Diabetes through Kenya Diabetics' Management and Information Center (KDMIC). KDMIC held a charity walk seeking to raise funds for its mandate. The Authority also contributed food and other items to Tana River flood victims.

As part of the CSI project KPA carried out rehabilitation works on the Entebbe Welfare children's Home in Uganda. The project was handed over on 28<sup>th</sup> May 2019.

## Corporate Social Investment (Cont'd)

During the year, the Authority sponsored the Law Society of Kenya Annual Conference held in August 2018. The sponsorship enabled the Authority to make a presentation to the best legal minds in the country.

### Sports

The Authority continues to support Bandari FC in the Kenya Premier League. The team won the Football Kenya Federation Shield title after defeating Kariobangi Sharks 3-1 in the Sportpesa Shield finals staged at the Moi International Sports Centre Kasarani in Nairobi. The team also emerged 2nd overall in the 2018/2019 Kenyan Premier League (SportPesa premier league). The Authority also sponsors basketball teams (men & women), volleyball, and netball amongst other sporting activities.



The Authority also assisted the Ministry of Transport, Infrastructure, Housing, Urban development and Public works in participating in the KECOSO games that took place in August 2018 in Kakamega County. During the games, the Authority successfully retained the overall title, the Mwasiliano Shield. The Authority is moving towards implementing a sports policy that will take care of the sportsmen and women.

### Arts & Culture

The Authority supported the worldwide renown Annual Maulidi festival in Lamu County. Lamu County is a UNESCO World Heritage site and is famous for its Maulidi celebrations. The Authority also sponsored the Coastal cultural festival in Malindi. The festival aimed at bringing all people from the region with key emphasis on the youth with the aim of promoting peace. It also promoted education and curbing early pregnancies among the youth in the Kilifi region.

## Corporate Social Investment (Cont'd)

Youth Empowerment Program Initiative (YEPI) hosted its 3<sup>rd</sup> annual entrepreneurial summit which the Authority also sponsored. YEPI, an NGO under the Ministry of EAC Labour and Social Protection is mandated to empower and transform young people's lives by building their skills in entrepreneurship and innovation, leadership with integrity and environmental conservation.

### Environment

The Authority 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.



In tandem with UN SDGs 1 (No poverty), 3 (good health and well-being), 4 (quality education), 5 (gender equality), 10 (reduced inequalities) and 11 (sustainable cities and communities) the Authority continues to invest in CSI in each of the Coastal Counties aimed at assisting and developing the communities to address specific socio-economic needs. Through such efforts, the Authority is determined to take pride in being responsible, respected, and welcomed in every place where it has its presence in Kenya and beyond.

## 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 2019 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

	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs `000</b>	<b>Kshs `000</b>
Profit Before Tax	13,885,505	10,308,479
Tax	(4,137,870)	(3,426,742)
<b>Net Profit</b>	<b>9,747,635</b>	<b>6,881,737</b>

### Dividend

The Directors recommend a dividend of Kshs 731.072 million for the year 2018/19. Dividend for the year 2017/18 was Kshs 516.130 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 5.

### 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 35 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' RESPONSIBILITIES

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.

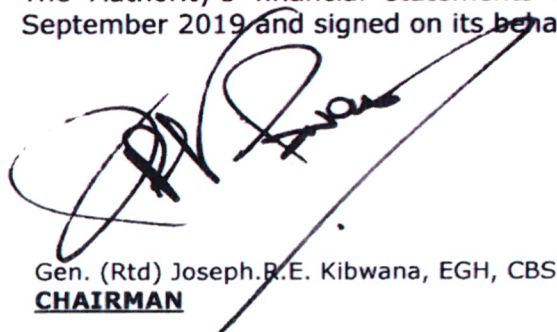
The Directors are responsible for the preparation of Financial Statements that give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on 30 June 2019. The responsibility includes:

- (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

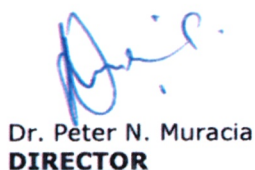
The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with the International Financial Reporting Standards and in the manner required by the Public 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 30<sup>th</sup> June 2019 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.

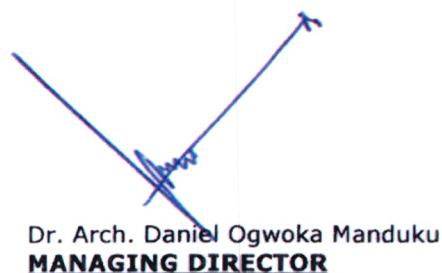
The Authority's financial statements were approved by the Board of Directors on 23 September 2019 and signed on its behalf by:



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



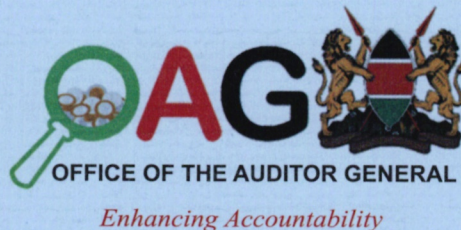
Dr. Peter N. Muracia  
**DIRECTOR**



Dr. Arch. Daniel Ogwoka Manduku  
**MANAGING DIRECTOR**

# REPUBLIC OF KENYA

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NAIROBI

## REPORT OF THE AUDITOR-GENERAL ON KENYA PORTS AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2019

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### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Kenya Ports Authority set out on pages 64 to 138, which comprise the statement of financial position as at 30 June, 2019, 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 the Kenya Ports Authority as at 30 June, 2019, 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 the Kenya Ports Authority Act, CAP 391 and the Public Finance Management Act, 2012.

#### Basis for Qualified Opinion

##### 1.0 Operating Revenue

As disclosed in Note 6 to the financial statements, the statement of profit and loss and other comprehensive income for the year ended 30 June, 2019 reflects operating revenue of Kshs.52,758,959,000. The following observations were made:

##### 1.1 Undercharging of Revenue from Storage of Empty Containers

Included in the operating revenue of Kshs.52,758,959,000 is an amount of Kshs.697,600,000 in respect of storage of empty containers. Records availed for audit review indicated that the Authority billed a total of USD83,655 (Kshs.8,532,810) for storage of five thousand six hundred and sixty (5660) empty containers. However, the calculated total revenue collectable or billable after expiry of the free storage period amounted to USD1,231,860 (Kshs.125,649,720), thus undercharging the storage revenue on the empty containers by USD1,148,205 (Kshs.117,116,910).

Further, the records indicated that the Authority released fifty-four (54) empty containers with storage charges of Kshs.36,950,383 before billing and securing of the revenue during the financial year 2017/2018. Instead, storage was billed and captured in 2018/2019 financial year, thus overstating the revenue for the year under audit review by Kshs.36,950,383.

Under the circumstances, the accuracy and completeness of revenue from storage of empty containers of Kshs.697,600,000 for the year ended 30 June, 2019 could not be confirmed.

## **1.2 Un-Confirmed Licenses Revenue**

The operating revenue of Kshs.52,758,959,000 also includes an amount of Kshs.128,677,000 in respect of licenses revenue, out of which Kshs.92,566,974 relates to revenue earned on Liquefied Petroleum Gas (LPG) handled by African Gas and Oil Company Limited. A review of the License Agreement dated 21 September, 2007 between the Kenya Ports Authority (KPA) and African Gas and Oil Company Limited indicated that the Company was to pay license fee in US Dollars equal to twenty-five percent (25%) of the Company's revenue derived directly from each tonne of LPG discharged, payable on a quarterly basis. However, records availed for audit review indicated that KPA charged license fees of US Dollars 22.65 instead of US Dollars 22.64, a difference of US Dollars 0.01 without providing documentary evidence to confirm that this was the service fee charged by the Company. Further, the Management did not provide details of all the LPG quantities handled at the facility by the Company during the year under review.

Consequently, the accuracy, completeness and regularity of the license fee of Kshs.92,566,974 for the year ended 30 June, 2019 could not be confirmed.

## **2.0 Basic Salary Paid for Hours not Worked**

Included in the establishment expenses of Kshs.19,992,244,000 is an amount of Kshs.7,207,572,000 in respect of basic salary. Audit review of time management records revealed that basic salary was paid based on the hours worked as captured in the time management system. However, the Management approved a payment of Kshs.223,346,182 for 390,379 hours not worked as staff left work before time and Kshs.3,334,689 for 5,672 hours also not worked when staff came to work late. This resulted in an over-payment of salaries amounting to Kshs.226,680,871 for hours not worked.

Under the circumstances, the accuracy of the basic salaries expenditure of Kshs.7,207,572,000 for the year ended 30 June, 2019 could not be confirmed.

## **3.0 Administrative Expenses**

As disclosed in Note 8 to the financial statements, the statement of profit and loss and other comprehensive income reflects an expenditure of Kshs.4,044,431,000 under administrative expenses. The following observations were made;

### **3.1 Wrong Charge to Development Studies Expenditure**

The administrative expenses of Kshs.4,044,431,000 includes an amount of Kshs.291,033,000 in respect of development studies. The latter balance includes an amount of Kshs.33,880,500 paid to two different vendors for the transfer of containers within KPA premises and charged to development studies. However, the related budget and procurement plans were not availed for audit review. Although the Management indicated that this was done on behalf of the Kenya Railways Corporation (KRC), evidence of a request from KRC Management or of non-availability of the Authority's equipment to undertake the operation was not availed for audit review.

Further, no explanation was provided on why KRC did not engage the service providers directly and why the expenditure was charged to development studies. In addition, details of the number of containers moved, dates it was done and equipment transporting the containers were not availed for audit review to confirm the amount charged and paid. The Management did not also provide details of how the service providers were identified and how the rates charged for the transfer of containers were determined.

Consequently, the accuracy, propriety and validity of Kshs.33,880,500 spent on development studies for the year ended 30 June, 2019 could not be confirmed.

### **3.2 Insurance Premiums**

Included in the administrative expenses of Kshs.4,044,431,000 is an amount of Kshs.427,873,000 in respect of insurance premiums. The following observations were made;

#### **3.2.1 Unconfirmed Plant All Risk Policy Insurance**

Included in insurance premiums of Kshs.427,873,000 for the year ended 30 June, 2019 is an amount of Kshs.64,139,998 in respect of premiums for policy number WES/ECPM/POL/4001814 - plant all risk policy. However, records availed for audit review indicated that insurance on various assets was not based on insurance valuation or asset book values. Further, two hundred and thirty-five (235) assets included in the list of insured assets did not have asset numbers, hence it was not possible to confirm if all the Authority's assets were insured or those covered by the policy belonged to the Authority.

Consequently, the propriety of insurance premiums of Kshs.64,139,998 on plant all risk policy for the year ended 30 June, 2019 could not be confirmed.

#### **3.2.2 Variation of Staff Group Cover Insurance**

Included in insurance premiums of Kshs.427,873,000 for the year ended 30 June, 2019 is an amount of Kshs.58,608,008 annual premium for provision of Staff Group Assurance Scheme cover. However, the service provider requested for variation of the premium by Kshs.14,652,002 or 25%, citing increase in the number of projected claims. This was approved by the Management without justification.

Consequently, the propriety and validity of insurance premiums of Kshs.58,608,008 on staff group cover for the year ended 30 June, 2019 could not be confirmed.

#### **3.2.3 Unsettled Claims**

Further included in insurance premiums of Kshs.427,873,000 for the year ended 30 June, 2019 is an amount of Kshs.11,826,722 in respect of premiums paid to a company for motor vehicle insurance. However, records availed for audit review indicated that the company failed to settle claims promptly, resulting to termination of the contract. The Management did not provide evidence to confirm refund of insurance premium paid for the outstanding period nor evidence of full settlement of claims lodged.

Consequently, the propriety, validity and value for money of insurance premiums of Kshs.11,826,722 for the year ended 30 June, 2019 could not be confirmed.

### **3.2.4 Insurance for Kenya Ports Authority Pension Scheme Assets**

The insurance premiums of Kshs.427,873,000 also includes an amount of Kshs.9,020,051 in respect of premiums for provision of insurance services to cover assets valued at Kshs.11,723,412,000 belonging to the Kenya Ports Authority Pension Scheme which is an independent entity with its own budget and the Authority did not have an insurable interest.

Consequently, the propriety and validity of insurance premiums of Kshs.9,020,051 for the year ending 30 June, 2019 could not be confirmed

### **3.3 Licenses and Computers Cost not Capitalised**

Included in the administrative expenses of Kshs.4,044,431,000 is an amount of Kshs.666,278,000 in respect of licenses and computers, out of which Kshs.10,000,000 was a part payment for procurement of IDEA data analytics and monitoring software valued at Kshs.15,812,830. However, the cost of the software was expensed instead of being capitalized as an intangible asset as required by International Accounting Standard No. 4 which states that- when the software is not an integral part of the related hardware, computer software is treated as an intangible asset. Further, records availed for audit review indicated that part of the software cost amounting to Kshs.3,162,566 was charged to development studies budget.

In addition, the Authority procured the software through direct procurement method and no evidence was availed to confirm that the software required compatibility with previously acquired technology or services to warrant direct procurement.

Consequently, the legality and value for money spent on software amounting to Kshs.15,812,830 and the accuracy of licenses and computers expenditure of Kshs.666,278,000 for the year ended 30 June, 2019 could not be confirmed.

### **3.4 Unsupported Sports Expenditure**

The administrative expenses of Kshs.4,044,431,000 also includes an amount of Kshs.96,015,000 under sports which relates to salaries, subsistence allowances, transport and other activities during various tournaments both locally and overseas by eleven (11) different teams of the Authority. However, the Management did not provide details of how the team management units' employees and non-employee players were selected to participate in various tournaments and the subsistence allowances paid determined. Further, an approved policy on the terms of engagement with team management units, employees and non-employee players was not availed for audit review.

In addition, included in the sports expenditure is Kshs.17,588,162 paid to staff to attend football matches of Bandari Football Club. However, it was not clear how and why the Authority issued imprests to staff in the football cheering team given that the club is an independent entity and has its own budget.

Consequently, the propriety of sports expenditure of Kshs.96,015,000 for the year ended 30 June, 2019 could not be confirmed.

## **4.0 Operating Expenses**

As disclosed in Note 10 to the financial statements, the statement of profit and loss and other comprehensive income for the year ended 30 June, 2019 reflects an

expenditure of Kshs.5,976,959,000 under operating expenses. The following observations were made;

#### **4.1 Overcharge on Uniforms and Clothing Expenses**

Included in the operating expenses of Kshs.5,976,959,000 is an amount of Kshs.354,579,000 in respect of uniforms and clothing, out of which Kshs.86,029,240 was in respect of uniforms and staff protective equipment. Included in the latter balance of Kshs.86,029,240 is an amount of Kshs.49,871,496 for supply of high visibility overalls. Records availed for audit review indicated that the Authority procured seven thousand two hundred and sixty (7,260) high visibility overalls costing Kshs.47,008,500 at a unit cost of Kshs.6,475. The award letter indicated a unit cost of Canada-imported overalls of Kshs.6,475 while locally made overalls were priced at Kshs.2,325 or a total of Kshs.16,879,500 for 7,260 overalls. However, physical verification of the items revealed that the overalls received had a local manufacturer's label. Further, importation documents (Import Declaration Forms) to confirm that the high visibility overalls were from Canada were not availed for audit review. The Authority therefore, overpaid the supplier by Kshs.30,129,000 for the locally made overalls.

Consequently, the propriety and value for money amounting to Kshs.49,871,496 spent on high visibility overalls for the year ended 30 June, 2019 could not be confirmed.

#### **4.2 Unconfirmed Port Infrastructure Repairs**

The operating expenses of Kshs.5,976,959,000 includes an amount of Kshs.1,528,600,000 relating to port infrastructure repairs. The latter balance includes an amount of Kshs.208,046,902 in respect of waterproofing works contract at KPA Headquarters Blocks I and II awarded through biennial framework contract for waterproofing works. However, details of how the contractor was selected from the list of contractors awarded the biennial contract were not availed for audit verification.

Further, the Bills of Quantities for the works included removal of old screed paving and water proofing material, replacement of the same with 38mm tropicalized roof finish, application of bituminous aluminum, application of Dunlop flexible membrane, laying of synthetic reinforced net backing and application of penetron admix for the whole roof surface. However, during a physical verification in the month of October, 2019, it was noted that a large section of the roof appeared unrepaired as evidenced by leakages observed whenever it rained.

Under the circumstances, the propriety, occurrence and value for money of Kshs.208,046,902 on repairs of port infrastructure for the year ended 30 June, 2019 could not be confirmed.

### **5.0 Receivables and Prepayments**

#### **5.1 Debt Recoverability**

The statement of financial position as at 30 June, 2019 reflects a receivables and prepayments balance of Kshs.15,946,216,000 representing an increase of Kshs.1,445,859,000 or 10% from the balance of Kshs.14,500,357,000 reported in 2017/2018, an indication of ineffective debt collection strategies by the Authority.

## **5.2 Long Outstanding Debt – National Treasury**

As reported in the previous financial year, the receivables and prepayments balance of Kshs.15,946,216,000 as at 30 June, 2019, includes Kshs.287,231,000 owed by the Ministry of Transport (Treasury/Dredgco Limited) that has been long outstanding since 1994. Although the Management has fully impaired this amount owed by the National Government it is not clear why The National Treasury has failed to pay the debt.

## **5.3 Doubtful Debts**

The receivables and prepayments balance of Kshs.15,946,216,000 includes an amount of Kshs.4,877,632,000 in respect of trade receivables comprising trade cargo, trade marine and rental receivables of Kshs.4,343,245,000, Kshs.450,793,000, and Kshs.83,594,000 respectively. An audit review of the ageing analysis revealed that an amount of Kshs.964,271,233 has been outstanding for more than one (1) year while the Authority continued to engage in business with the debtors. No explanation has been provided for the failure to collect the amount.

## **6.0 Property, Plant and Equipment**

As disclosed in Note 11 to the financial statements, the statement of financial position reflects a balance of Kshs.241,554,138,000 under property, plant and equipment. The following observations were made:

### **6.1 Alienated Properties**

As reported in the previous year, the property, plant and equipment balance included leased land valued at Kshs.15,190,900,000 and land and buildings balance of Kshs.75,097,862,000. Information availed for audit review indicated that twenty-nine (29) properties belonging to the Authority had been invaded by third parties. The Management indicated that third parties had acquired ownership rights over the properties and undertaken development. However, the Authority had filed suits in various law courts which were pending determination. Further, out of these twenty-nine (29) properties, only nine (9) properties had values totalling to Kshs.755,100,000 while twenty (20) properties of unknown value were not included in the fixed assets register.

In the circumstances, it has not been possible to ascertain the ownership status of the twenty-nine (29) parcels of land and that the property, plant and equipment balance of Kshs.241,554,138,000 is fairly stated as at 30 June, 2019.

### **6.2 Land Without Title Documents**

Included under the land and buildings balance of Kshs.75,097,862,000 are nineteen (19) parcels of land valued at Kshs.3,106,600,000 owned by the Authority which did not have title documents. Although the Management engaged a private consultant in the month of May 2017 to conduct verification of all its properties, the final 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.241,554,138,000 as at 30 June, 2019 includes fourteen (14) pieces of land measuring about 263.47 hectares and valued at Kshs.4,369,700,000 which is not

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

## **6.4 Reclaimed Land**

### **6.4.1 Excision of Part of Harbour Area**

As reported in the previous financial year, Kenya Ports Authority tariff book (2012) 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 National Land Commission on 17 December, 2015 instructed immediate cessation of any development on the subject land and its environs until determination of the matter. However, the developer, has proceeded to develop the land 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 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.

In light of the foregoing, it has not been possible to ascertain the accuracy, completeness and ownership status of the property, plant and equipment balance of Kshs.241,554,138,000 and that the balance is fairly stated as at 30 June, 2019.

## **6.5 Lamu Port Housing**

The property, plant and equipment balance of Kshs.241,554,138,000 includes an amount of Kshs.49,201,730,000 under work in progress, out of which Kshs.503,124,577 is in respect of Lamu Port Police Station and Staff Housing. The following observations were made:

### **6.5.1 Unconfirmed Project Cost**

Records availed for audit review indicated that the Ministry of Transport, Infrastructure, Public Works, Housing and Urban Development advertised and awarded contract No. 9712C - Proposed Lamu Port Police Station and Management Housing for Kshs.615,848,997 in the financial year 2012/2013. The Kenya Ports Authority entered into an agreement on 23 November, 2017 to take over the works and avail funding of Kshs.842,683,022 through the government grant for Lamu Port after a Board approval on 10 November, 2017. The total funding comprised Kshs.340,532,154, being claims by the contractor for delay in handing over of the site and other factors provided for in the contract and Kshs.502,150,868 for outstanding and additional works.

An audit review of the agreement revealed that the project was 45% complete as at the time the Kenya Ports Authority undertook to finance the same and indicated that the total amount required for completion was Kshs.961,003,022 as detailed below.

<b>Details</b>	<b>Amount (Kshs.)</b>
Project Contract Sum	615,848,997
Claim for delay and compensation	340,532,154
<b>Total</b>	<b>956,381,151</b>
Amount paid to contractor by the Ministry up to (Dec 2017)	(267,196,753)
<b>Amount required to complete the houses</b>	<b>689,184,398</b>
Cost of Presidential launch	153,498,624
<b>Total Amount due to Contractor</b>	<b>842,683,022</b>
<b>Additional facilities</b>	<b>118,320,000</b>
<b>Total Required</b>	<b>961,003,022</b>

However, Project data provided in the same agreement indicated that the total amount certified and paid to the contractor as at 23 November, 2017 was Kshs.346,222,507 which varied by Kshs.79,025,754 with the amount of Kshs.267,196,753 used in calculating the amount required to complete the project. The variance has neither been explained nor justified. Further, the amount of Kshs.346,222,507 was not recognized as a capital grant in the Authority's financial statements.

Under the circumstances, the project cost of Kshs.961,003,022 for Proposed Lamu Port Police Station and Management Housing and cost of Kshs.267,196,753 incurred by the Ministry of Transport, Infrastructure, Public Works, Housing and Urban Development on the same project could not be confirmed.

### **6.5.2 Irregular Variation of the Contract Price**

The State Department for Public Works issued a variation order number 1 of Kshs.494,030,778 to Kshs.1,109,879,775 for the works, representing 80% of the original contract sum of Kshs.615,848,997. However, the variation was contrary to Section 139(4)e of the Public Procurement and Asset Disposal Act, 2015 which states that any variation of a contract shall only be considered if the cumulative value of all contract variations do not result in an increment of the total contract price by more than twenty-five percent (25%) of the original contract price.

Consequently, the contact variation of Kshs.494,030,778 was contrary to the Law.

### **6.5.3 Unverified Works**

The variation order number 1 of Kshs.494,030,778 included an amount of Kshs.153,498,624 for emergency works in respect of the Presidential launch of the Lamu Port comprising the following:

	<b>Details</b>	<b>Amount (Kshs.)</b>
1	Bush Clearing and parking	45,627,560
2	Access roads	15,930,000
3	Temporary police camp	1,330,590
4	Plaque stands	2,695,000
5	Ramp to landscaped area	43,250
6	Works at the navy base	51,000,000

	<b>Details</b>	<b>Amount (Kshs.)</b>
7	Works at the helipad area	15,700,000
	<b>Total</b>	<b>132,326,400</b>
	<b>VAT</b>	<b>21,172,224</b>
	<b>Overall Total</b>	<b>153,498,624</b>

However, during site visit in the month of September 2019, no permanent works that qualify as assets of the Authority were verified. Further, it is not clear why works costing Kshs.51,000,000 at the Navy Base were financed and disclosed as part of the Authority's assets.

Consequently, the existence of work in progress of Kshs.153,498,624 as at 30 June, 2019 could not be confirmed

#### **6.5.4 Unverified Project Motor Vehicle and Maintenance Costs**

A project vehicle acquired at a cost of Kshs.5,800,000 was grounded and was held at a police station off the site for safety reasons. However, the contractor continued to claim vehicle maintenance and driver's cost totalling Kshs.1,377,764 (Kshs.44,444 per month for 31 months extended period) for a vehicle which was not in use.

Consequently, the existence of project assets of Kshs.5,800,000 and vehicle maintenance cost of Kshs.1,377,764 as at 30 June, 2019 could not be confirmed.

#### **6.6 Construction of Three Berths at Manda Bay - Lamu Port**

The property, plant and equipment balance of Kshs.241,554,138,000 includes an amount of Kshs.49,201,730,000 under works in progress, out of which Kshs.41,198,142,000 is in respect of basic construction work. The latter balance includes an amount of Kshs.27,731,781,192 for the construction of first three berths and associated infrastructure at Manda Bay – Lamu Port. The contract for the works was signed on 12 July, 2013 for USD 259,441,740 (equivalent to Kshs.26,463,057,480) and the Kenyan Shilling component of Kshs.18,992,419,922.

The following anomalies were noted:

##### **6.6.1 Overpayment of Advance**

The contract provided for 10% advance payment which translated to USD 25,944,174 (foreign currency portion) and Kshs.1,899,241,992 (local currency portion). However, the Management approved and paid an advance of Kshs.2,000,000,000 for the local component which is Kshs.100,758,008 in excess of Kshs.1,899,241,992(10%) provided by the contract. No explanation was provided for the excess payment of advance.

Further, interim payment certificate No. 17 dated 12 June, 2019 indicated that the foreign currency portion of the advance has been fully recovered while outstanding local currency advance was Kshs.569,958,754. However, Note 22(b) to the financial statements for the year ended 30 June, 2019 reflects advance Lamu creditors of Kshs.1,523,067,000, resulting to a variance of Kshs.953,108,246 which was not explained or reconciled. In addition, the Management availed a bank guarantee from

a local bank for Kshs.1,352,950,669, an indication that advance payment of Kshs.170,116,331 may not have been secured by a bank guarantee.

Consequently, the accuracy of advance Lamu creditors balance of Kshs.1,523,067,000, recoverability of Kshs.170,116,331 and validity of Kshs.100,758,008 advance payment as at 30 June, 2019 could not be confirmed.

### **6.6.2 Unapproved Temporary Works**

Included in Kshs.27,731,781,192 for the construction of Lamu Port are temporary works item 1.2 of the Bills of Quantities valued at USD.4,465,062 and Kshs.792,032,072 which were supported with a breakdown of items and amounts. However, evidence that the proposed breakdown of the temporary works of USD.4,465,062 and Kshs.792,032,072 was submitted to the Engineer and taken into account was not availed for audit verification. Further, the Management did not provide evidence of measurement of the temporary works lump sum of USD.4,465,062 or Kshs.792,032,072.

Under the circumstances, the existence of temporary works and validity of lump sum payment of Kshs.792,032,072 as at 30 June, 2019 could not be confirmed.

### **6.6.3 Unconfirmed Insurance and Security**

The Bill of Quantities for Lamu Port project provided for USD.6,733,012 (Kshs.688,585,137) and Kshs.114,073,998 for insurance and security of the project which was fully paid for as at 30 June, 2019. Review of the insurance policy documents revealed that the insurance period was 1,734 days from 17 April, 2015 to 14 January, 2020. However, this is contrary to Clause 18.5 of the General Conditions of Contract Amendment which required the contractor to maintain a professional indemnity insurance in full force and effect until five (5) years after the takeover certificate. Further, evidence of premium payments by the contractor was not provided for audit review

Under the circumstances, the accuracy and value for money of Kshs.USD.6,733,012 (Kshs.688,585,137) and Kshs.114,073,998 insurance costs and insurance cover for Lamu Port work in progress of Kshs.27,731,781,192 as at 30 June, 2019 could not be confirmed.

### **6.6.4 Unsupported Engineers' Expenses**

The Bills of Quantities included item number 1.9.1 for establishment of Engineers' office and supply of office equipment and office furniture at initial cost of USD.114,129 and Kshs.39,975,089 which had been paid in full as at 30 June, 2019. However, the Management did not provide details of what the amount was spent on. A physical verification of the project site in the month of September 2019 revealed that the Engineers were housed at Lamu Port Headquarters that was built by the State Department for Public Works.

Consequently, the accuracy and propriety of works in progress of USD.114,129 (Kshs.11,671,973) and Kshs.39,975,089 could not be confirmed.

### **6.6.5 Unsupported Accommodation Expenses**

The Bills of Quantities included item number 1.9.5 for Engineers' accommodation at a total cost Kshs.26,617,290, out of which Kshs.16,846,689 had been spent as per interim certificate number 17 dated 12 June, 2019. However, details of the expenditure were not provided for audit review.

Consequently, the propriety of accommodation allowances totalling Kshs.16,846,689 included in work in progress for the year ended 30 June, 2019 could not be confirmed.

### **6.6.6 Omitted Lamu Port Land**

The property, plant and equipment balance of Kshs.241,554,138,000 includes an amount of Kshs.49,201,730,000 under works in progress, out of which an amount of Kshs.27,731,781,192 is in respect of Lamu Port Project funded by National Government Grants. However, and as previously reported, the Lamu Port land costing Kshs.1,925,347,735 was not included in the property, plant and equipment balance of Kshs.241,554,138,000 as at 30 June, 2019. Further, a physical verification in the month of October 2019 revealed that the Project Affected Persons, were still occupying the land despite receipt of full compensation amounting to Kshs.1,925,347,735. In addition, the Authority was yet to obtain a title deed for the land.

Consequently, the accuracy and completeness of the property, plant and equipment balance of Kshs.241,554,138,000 and the ownership of the land could not be confirmed.

### **6.7 Manufacture of Concrete Barriers**

Included in work in progress balance of Kshs.49,201,730,000 as at 30 June, 2019 is basic constructions amount of Kshs.41,198,142,000, out of which Kshs.233,938,333 is in respect of manufacture of concrete barriers. The following observations were made:

- i. Kenya Ports Authority issued Local Purchase Orders to 11 firms for manufacture of 15,180 concrete barriers costing Kshs.1,202,192,252.95 inclusive of Value Added Tax for road barricading and traffic flow management within the Port. However, the works were awarded under the biennial tender for concrete works KPA/083/2015-2016/CE which was meant for repairs and maintenance works of concrete infrastructure at the Port and not for procurement of capital projects. Further, two Local Purchase Orders (LPOs) for 2,760 barriers for Kshs.218,587,008 had not been delivered as at 30 June, 2019 while the remaining nine (9) LPOs for 12,420 barriers costing Kshs.983,605,244.95 (Kshs.79,195.27 per barrier VAT inclusive) had been partially delivered or serviced.
- ii. Audit review of the Bills of Quantities revealed that one thousand three hundred and eighty (1380) barriers required 5778 cubic meters of concrete to manufacture, translating to 4.2 cubic meters per barrier. However, during physical verification in the month of October 2019, measurements taken indicated that each barrier was approximately 0.65 cubic meters in volume which was less than the volume provided in the Bills of Quantities. This is an indication that the total cost of concrete barriers to be delivered as per calculated volume and prices in the Bills of Quantities should have been Kshs.151,323,884, (Kshs.12,184 per barrier) and not

Kshs.983,605,244. Therefore, the cost may have been inflated by approximately Kshs.832,281,360.71 (Kshs.67,011 per barrier).

- iii. In addition, the Management did not avail approved budget and procurement plan to support the manufacture of concrete barriers, contrary to Section 53 (9) of the Public Procurement and Asset Disposal Act, 2015 which states that an Accounting Officer who knowingly commences any procurement process without ascertaining whether the good, work or service is budgeted for, commits an offence under the Act.
- iv. Furthermore, the Management did not avail user procurement requisitions indicating the need and locations of these barriers, contrary to Section 53 (9) of the Public Procurement and Asset Disposal Act, 2015 (3) which states that any public officer who knowingly recommends to the Accounting Officer excessive procurement of items beyond a reasonable consumption of the procuring entity commits an offence under the Act.

Under the circumstances, the propriety of Kshs.233,938,333 in respect of manufacture of concrete barriers could not be confirmed.

#### **6.7.1 Excavation and Concrete Works on Kenya Railways Corporation (KRC) Makongeni Goodshed - LR No. 209/8197**

Included in work in progress balance of Kshs.49,201,730,000 as at 30 June, 2019 is basic construction amount of Kshs.41,198,142,000, out of which Kshs.746,548,065 is in respect of concrete works at Makongeni Inland Container Depot in Nairobi. However, the work in progress support schedule indicated a total value of orders issued of Kshs.587,475,320, resulting to a variance of Kshs.159,072,745 which was not explained or reconciled. Further, the expenditure was not provided in the approved capital budget for the Authority for the year under audit.

Further, the Authority issued Local Purchase Orders to various companies amounting to Kshs.587,475,320 under biennial contracts for excavation and concrete works Ref: KPA/083/2015-2016/CE. However, the biennial contracts were for repair works and not for capital works at Makongeni Yard LR No.209/8197. During physical verification in the month of September 2019, it was noted that the yard was not demarcated to identify areas to be excavated and concreted by the various contractors. It was therefore not possible to ascertain if each of the contractors delivered the works as per the purchase orders and Bills of Quantities. In addition, the Authority was in occupation of the property without a lease and had un-procedurally and without approval of KRC, uprooted a railway line while undertaking excavations, an indication of irregular investment of public funds on a third party's property.

Consequently, the accuracy and propriety of work in progress of Kshs.746,548,065 as at 30 June, 2019 could not be confirmed.

#### **7.0 Bank and Cash Balance Variance**

As disclosed in Note 24 to the financial statements, the statement of financial position reflects a bank and cash balance of Kshs.859,114,000 as at 30 June, 2019. Included in the bank and cash balance of Kshs.859,114,000 is petty cash balance of Kshs.3,708,000, out of which Kshs.830,414 is in respect of Rwanda office imprest. However, the cash count certificate as at 30 June, 2019 indicated a balance of Kshs.37

(Rwandese Franks 369), resulting to a variance of Kshs.830,377 which has not been explained or reconciled.

Consequently, the accuracy and completeness of bank and cash balance Kshs,859,114,000 as at 30 June, 2019 could not be confirmed.

## **8.0 Long Term Investments**

As previously reported, the statement of financial position as at 30 June, 2019 reflects long term investments balance of Kshs.1,748,887,000 comprising fixed deposits of Kshs.1,719,787,000 and equities of Kshs.29,100,000. However, Note 20(b) to the financial statements for the year ended 30 June, 2019 reflects equities with a nominal value of Kshs.54,346,000 and shares with a nominal value of Kshs.100,000,000 in respect of the Kenya National Shipping Line Limited and the Kenya Ferry Services Limited respectively which were fully impaired. However, share certificates for the Kenya National Shipping Line Limited availed for audit review indicated that the 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 or reconciled.

Consequently, the accuracy of equities balance of Kshs.29,100,000 as at 30 June, 2019 could not be confirmed.

## **9.0 Unconfirmed Borrowings Obligation**

As disclosed in Note 29 to the financial statements, the statement of financial position as at 30 June, 2019 reflects borrowings of Kshs.33,549,967,000, out of which Kshs.23,373,808,000 is an outstanding loan from Japan International Cooperation Agency for construction of Container Terminal 2 at the Port of Mombasa. Available information indicates that the Cabinet approved the revival of the Kenya National Shipping Line Limited (KNSL) and the Government was to ensure that KPA and KNSL negotiated an arrangement through which KNSL would operate from the Port of Mombasa, reserve all government cargo for carriage by KNSL and streamline operations at the Port to make it more efficient and effective.

Further, the KPA Board was also to appoint KNSL as the sole provider in respect of control, operations, maintenance and management of the terminal (Second Container Terminal). However, the Management did not indicate whose obligation it was to settle the outstanding loan balance upon completion of the envisioned transfer and handing over of the Second Container Terminal.

Consequently, the repayment and obligations of borrowings balance of Kshs.23,373,808,000 as at 30 June, 2019 and revenue rights associated with Container Terminal 2 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Ports Authority Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my Qualified Opinion.

## **Key Audit Matters**

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

## **Other Matter**

### **1. Budgetary Control and Performance**

During the year under review, the Authority had a total revenue budget of Kshs.46,158,386,000 against actual revenue collections of Kshs.55,444,977,000 or 120%, resulting to over collection of Kshs.9,286,591,000 or 20%. Similarly, the Authority had a total budget of Kshs.38,766,468,000 while expenditure totalled Kshs.41,559,472,000, resulting to a net over-expenditure of Kshs.2,793,004,000 or 7.2%. The Management attributed the significant over collection to increased storage and remarshaling operations at the Inland Container Depot in Nairobi (ICDN). The over expenditure which was mainly on depreciation and amortization was attributed to revaluation and acquisition of new assets.

There is need therefore for the Authority to increase its revenue targets and budget in light of improved collections at the ICDN and allocate more resources to projects that will enhance its operational efficiency and service delivery to port users.

### **2. Unresolved Prior Year Matters**

Various prior year audit issues remained unresolved as at 30 June, 2019. Management has not provided reasons for the delay in resolving the prior year audit issues.

## **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.

#### **1. Staff Establishment**

As disclosed in Note 9 to the financial statements, the statement of profit and loss and comprehensive income reflects an expenditure of Kshs.19,992,244,000 under establishment expenses which includes an amount of Kshs.2,210,961,000 in respect of staff allowances. The following observations were made:

##### **1.1 Irregular Payment of Acting Allowances**

Human resource records indicated that seventeen (17) employees had been serving in acting positions for more than six (6) months. This is contrary to Paragraph B11(f) of Kenya Ports Authority Human Resources Manual, 2017, which states that acting appointments shall be limited to six months at any given time. As a result, a total of

Kshs.1,955,126 was paid to staff as monthly acting allowances beyond the six months period during the year under review.

Consequently, the validity of acting allowances of Kshs.1,955,126 for the year ended 30 June, 2019 could not be confirmed.

### **1.2 Irregular Payment of Special Duty Allowances**

An audit review of the payroll revealed that fourteen (14) employees undertook special duties for more than six (6) months. This is contrary to Paragraph B.12 (h) of the Kenya Ports Authority Human Resource Manual, 2017 which states that Special Duty Allowance will not be payable to an officer for more than six (6) months. As a result, special duty allowances of Kshs.714,767 was paid contrary to the Policy.

### **1.3 Payment of Bonus Contrary to the Policy**

Included in the staff allowances of Kshs.2,210,961,000 is an amount of Kshs.477,179,000 relating to accrued staff bonus. Further, the Authority paid an additional Kshs.53,969,800 to various staff for seven (7) months from July 2018 to January 2019 as bonus. However, the bonus payments were not based on individual evaluated performance but on one-month basic salary for all employees, contrary to Paragraph 3.4.3 of the Public Service Commission Rewards and Sanctions Framework May, 2016 which requires 13<sup>th</sup> month basic salary to be paid as bonus based on individual evaluated performance and respective contribution to the institutional performance.

The Authority was therefore, in breach of the Law.

## **2.0 Hospital and Referral Bills not Supported by a Policy**

Included in the establishment expenses of Kshs.19,992,244,000 is an amount of Kshs.620,907,000 relating to hospital and referral bills. The following observations were made:

- i. The Management through Circular Ref HR/1/6/66 dated 01 February, 2018 suspended the provision of Paragraph E.1(b) of the Kenya Ports Authority Human Resources Manual, 2017 which required staff medical benefits to be subject to certain limits set by the Board from time to time, thus allowing medical benefits for staff and their dependents without any limit. However, Ministerial approval as required by Section 11 (c) of the Kenya Ports Authority Act, Cap 391 which gives powers to the Minister to approve any major alterations in salaries, wages or other terms and conditions of service of employees was not availed for audit review. This resulted in one employee's dependant accumulating a medical bill of Kshs.40,467,906, which according to the Circular has to be settled by the Authority.
- ii. The same Circular suspended the Authority's Human Resources Manual, 2017 provision limiting dependants per employee to one spouse below sixty (60) years in age and four (4) children below twenty-two (22) years. The suspension resulted in enrolment of 1,006 dependants, out of whom twenty-eight (28) spouses were above the age of sixty (60) years and twelve (12) children were above the age of twenty-two (22) years hence an addition cost of Kshs.5,777,300 in medical expenses.

- iii. Included in the hospital and referrals bills is an amount of Kshs.110,981,363 in respect of private inpatient fees for employees in management positions and their dependants. However, this is not provided for in the Kenya Ports Authority Human Resources Manual, 2017 nor were details of employees who are eligible for private hospital services provided for audit verification.

Consequently, the propriety and validity of hospital and referral bills of Kshs.116,758,663 for the year ended 30 June, 2019 could not be confirmed and Authority was therefore, in breach of the Law.

### **3.0 Overtime Allowances**

Also included in the establishment expenses of Kshs.19,992,244,000 is an amount of Kshs.3,162,857,000 overtime allowances compared to Kshs.2,688,474,000 reported in the previous financial year. The following observations were made:

#### **3.1 Overpayment of Overtime Allowances**

Included in overtime allowances of Kshs.3,162,857,000 for the year ended 30 June, 2019 is Kshs.1,719,928,799, being overtime allowances paid in excess of 30% and 20% for operations and administrative employees respectively, contrary to Paragraph C.9 (h) of the Kenya Ports Authority Human Resource Manual, 2017 which requires overtime hours payable at the applicable rates to be limited to a maximum of thirty per cent (30%) enhanced time of the normal monthly working hours for operational employees and twenty per cent (20%) for administrative employees.

Consequently, the propriety and validity of overtime allowances of Kshs.1,719,928,799 for the year ended 30 June, 2019 could not be confirmed.

#### **3.2 Overpayment of Third Shift Allowances**

Included in the establishment expenses of Kshs.19,992,244,000 is an amount of Kshs.3,162,857,000 in respect of overtime allowances, out of which Kshs.368,972,447 relates to third shift allowance. An audit review of payroll records indicated that some 1,801 employees whose basic salary totalling Kshs.1,394,437,766 were paid third shift allowances of Kshs.250,268,695, against Kshs.209,165,665 or 15% of basic salary payable resulting to an overpayment of third shift allowances by Kshs.41,103,030. This is contrary to the Collective Bargaining Agreement of 2018/2019 Paragraph 14(e) which states that, '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'.

Consequently, the propriety and validity of third shift allowances of Kshs.368,972,447 for the year ended 30 June, 2019 could not be confirmed.

#### **3.3 Overtime Allowances Paid to Employees on Training Grades**

Further, included in the overtime allowances of Kshs.3,162,857,000 for the year ended 30 June, 2019 is an amount of Kshs.101,579,108, being overtime allowances paid to employees on training grades, contrary to Paragraph C.9 (h) of the Kenya Ports Authority Human Resource Manual, 2017 which prohibits payment of overtime allowances for this category of employees.

Consequently, the propriety and validity of overtime allowances of Kshs.101,579,108 for the year ended 30 June, 2019 could not be confirmed.

### **3.4 Duty Travel Allowances**

Included in the establishment expenses of Kshs.19,992,244,000 is an amount of Kshs.437,891,000 in respect of duty travel. Records availed for audit review indicated that the Principal Secretary, State Department for Transport on 4 October, 2018 requested the Authority to facilitate air tickets and subsistence allowances amounting to Kshs.1,371,730 for two officers while visiting China and USA on Kenya Ports Authority related matters. However, the purpose of the trip was not disclosed in the letter. Further, on 29 November, 2018, the Principal Secretary vide another letter stated that the two officers extended their stay in China by seven (7) days and requested for payment of additional subsistence allowances for the extended period amounting to Kshs.821,725. However, documentary evidence of travel and the source of funding were not availed for audit review.

Consequently, the propriety of duty travel allowances of Kshs.2,193,455 for the year ended 30 June, 2019 could not be confirmed.

### **3.5 Gender Composition**

The biodata presented for audit review indicated that the Authority had a total of 6,791 employees as at 30 June, 2019, out of whom 5,386 (79.21%) were male while 1,405 (20.69%) were female. This contravened Paragraph B.22 (2) of the Public Service Commission Human Resource Policies and Procedure Manual, 2016 which provides that the Government will endeavor to have a gender balanced Civil Service by ensuring that not more than 2/3 of positions in its establishment are filled by either gender.

Consequently, the Authority was in breach of the Law.

### **3.6 Ethnic Composition**

The biodata presented for audit review as at 30 June, 2019 indicated that the Authority had 2,165 employees in management positions and 4,626 on permanent terms, giving a total to 6,791. Included in management positions is one ethnic community with a total of 1,874 (40.51%) employees, contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which states that no public establishment shall have more than one third of its staff from the same ethnic community.

Consequently, the Authority was in breach of the Law.

### **3.7 Over Commitment of Salary**

Payroll records availed for audit review indicated that in the month of June, 2019 the Authority paid basic salary to two hundred and forty-six (246) employees who had committed their salaries beyond two-thirds of the basic salary. This is contrary to Section C.1 (3) of the Public Service Commission Human Resource Policies and Procedures Manual, 2016 which states that a public officer shall not over-commit their salaries beyond two thirds (2/3) of their basic salaries and Heads of Human Resource Units should ensure compliance.

Consequently, the Authority was in breach of the Law.

#### **4. Publicity and Advertising Expenses**

As disclosed in Note 8 to the financial statements, the statement of profit and loss and comprehensive income reflects an expenditure of Kshs.4,044,431,000 under administrative expenses which includes an amount of Kshs.462,850,000 in respect of publicity and advertising. Included in publicity and advertising expenses is an amount of Kshs.23,474,184 paid to various companies in the Democratic Republic of Congo and Burundi for media services. However, evidence of competitive bidding for the contracts was not provided for audit review.

Under the circumstances, it was not possible to confirm whether the Authority got value for money from the amount of Kshs.23,474,184 spent on publicity and advertising.

#### **5. Corporate Social Responsibility Expenditure**

Included in the administrative expenses of Kshs.4,044,431,000 is an amount of Kshs.125,229,000 relating to corporate social responsibility. The latter balance includes an amount of Kshs.6,086,934 in respect of payments for construction of two hostels at Makahani Secondary School in Kilifi County at a contract sum of Kshs.8,297,562. However, records availed for audit indicated that the Authority procured the works through requests for quotations, contrary to the First Schedule of the Public Procurement and Disposal Regulations, 2006 which sets the maximum amount of Kshs.2,000,000 for a Class A procuring entity for use of requests for quotations for works.

Under the circumstances the Authority may not have obtained value for money on corporate social responsibility expenditure of Kshs.6,086,934 and was in breach of the Law.

#### **6. Unsupported Training Expenditure**

The administrative expenses of Kshs.4,044,431,000 also includes an amount of Kshs.447,245,000 in respect of training, out of which Kshs.8,325,900 relates to occupational health safety training and Kshs.6,890,400 consultation fees for training teachers on the new pre-school curriculum. Audit review of available records revealed that the consultants were selected through requests for quotations and no evidence was availed to confirm that a Local Service Order was issued or a contract agreement for provision of the service signed. Further, details of how the trainees were identified and selected were not availed for audit review. In addition, the consultants were not in the register of suppliers.

Further, the procurement was higher than the Kshs.1,000,000 maximum amount allowed for use of requests for quotations by the First Schedule of the Public Procurement and Disposal Regulations, 2006. The procurement also contravened Section 105 (a) of the Public Procurement and Asset Disposal Act, 2015 which provides that a procuring entity may use a request for quotations from the register of suppliers for a procurement if the estimated value of the goods, works or non-consultancy services being procured is less than or equal to the prescribed maximum value for using requests for quotations as prescribed in Regulations.

In the circumstances, the legality and validity of training expenditure of Kshs.15,216,300 for the year ended 30 June, 2019 could not be confirmed.

## **7. Electrical Services Expenditure**

As disclosed in Note 10 to the financial statements, the statement of profit and loss and comprehensive income reflects an expenditure of Kshs.5,976,959,000 under operating expenses which includes an amount of Kshs.513,504,000 in respect of electrical services. Records availed for audit review indicated that the Authority entered into biennial framework contract on 3 November, 2016 for provision of electrical services for two (2) years expiring on 2 November, 2018. An approval for extension of the contract was given on 12 February, 2019. However, examination of records revealed that Local Purchase Orders for electrical works amounting to Kshs.342,385,717 were issued during the period when the framework contract had expired and before approval of the extension. The Management therefore undertook direct procurement contrary to Section 103 (1) of the Public Procurement and Asset Disposal Act, 2015 which provides that a procuring entity may use direct procurement as allowed under sub-section (2) as long as the purpose is not to avoid competition.

Consequently, the Authority was in breach of the Law.

## **8. Lamu Port Housing Project**

As disclosed in Note 11 to the financial statements, the statement of financial position reflects a balance of Kshs.241,554,138,000 under property, plant and equipment operating expenses which includes an amount of Kshs.49,201,730,000 in respect of work in progress. The latter balance includes an amount of Kshs.503,124,577 relating to Lamu Port Police Station and Staff Housing. The following anomalies were noted:

### **8.1 Procurement by the Parent Ministry**

Records availed for audit review indicated that the Ministry of Transport, Infrastructure, Public Works, Housing and Urban Development through a letter reference QD59/9712C/69 dated 04/10/2017 requested the Kenya Ports Authority to make payments amounting to Kshs.110,647,368 to the contractor for Certificate Number 9. The Authority's Board on 10 November, 2017 indicated that the works required an amount of Kshs.961,003,002 to complete and approved an expenditure of Kshs.340,532,154 although the project was not provided for in the Authority's annual budget.

In light of the foregoing, initiation, tendering and awarding of the contract by the parent Ministry is a pointer to override on the Management's budget preparation and implementation which could negatively impact on the Authority's budget and cash flows.

### **8.2 Delayed Completion of the Project and Missing Details**

During physical verification of the project in the month of September 2019, it was observed that major works including parking for the police station, landscaping and fencing of the housing estate, pit latrine at the dispensary and guard house among other works were incomplete yet the expected revised completion date was 8 August, 2018. Therefore, the project was behind schedule by fourteen (14) months.

Further, the contract for the staff police station and staff housing was varied through use of 200mm machine cut coral stones instead of 250mm blocks and decra type

roofing material instead of clay tiles. However, instructions from the Project Manager for the changes and approval by the employer were not provided for audit review.

In addition, the staff housing estate comprising twenty-four (2 bedroom) flats, eight – (3 bedroom) flats and two (3 bedroom) bungalows were fully occupied but details of the occupants, allocations and payments of rents were not availed for audit verification. This is contrary to Kenya Ports Authority's Human Resources Manual Paragraph L.3 which states that an employee by virtue of his employment may, subject to availability, be allocated a house owned by the Authority. The Manual further states that an employee allocated an Authority owned house will be charged rent at market rate and will be required to enter into an agreement with the Authority and will be entitled to one house at any given time.

Under the circumstances, the Authority was in breach of the Law and value for money amounting to Kshs.503,124,577 on the project could not be confirmed.

### **8.3 Port Infrastructure and Electrical Repairs**

Records availed for audit review indicated that the Authority incurred expenses amounting to Kshs.3,879,963,385 on port infrastructure repairs and Kshs.646,357,753 on electrical repairs, all totalling to Kshs.4,526,321,138. However, the expenditure was incurred and classified as recurrent expenditure yet it was capital in nature. Further, the amount was subsequently reclassified as Work-in-Progress. However, the approved budget for the capital expenditure was not availed for audit review.

### **8.4 Kisumu Port**

Documents availed for audit review indicated that the Management issued three (3) purchase orders for a total of Kshs.349,184,884, against a budget of Kshs.110,500,000 for capital works at Kisumu Port, out of which Kshs.103,953,185 had been paid as at 30 June, 2019. However, the works were procured under the biennial framework contracts for repairs and maintenance while these were capital works in nature. Further, the Management initiated and procured capital works at a total cost of Kshs.349,184,884 exceeding the budget by Kshs.238,684,884, contrary to Section 44(2) of the Public Procurement and Asset Disposal Act, 2015 which requires an Accounting Officer to ensure that procurements of goods, works and services of a public entity are within the approved budget of that entity.

Further, the works and procurements incurred were not in the procurement plan for the financial year 2018/2019, contrary to Section 45(3) of the Public Procurement and Asset Disposal Act, 2015 which states that all procurement processes shall be within the approved budget of the procuring entity and shall be planned by the procuring entity concerned through an annual procurement plan.

The Authority was therefore, in breach of the Law.

## **9 Unconfirmed Storage Revenue**

As disclosed in Note 6 to the financial statements, the statement of profit and loss and comprehensive income reflects an income of Kshs.52,758,959,000 under operating revenue which includes amounts of Kshs.9,906,122,000 and Kshs.697,600,000 in respect of storage of full containers and storage of empty containers respectively, all totalling to Kshs.10,603,722,000. Records availed for audit review indicated that the Kenya Ports Authority signed agreements with nine (9) companies for provision of

containers storage facilities in Nairobi. However, details of how the companies were identified, selected and awarded the service provision contracts were not provided for audit review.

Further, audit review of the service provision agreement revealed that the Kenya Ports Authority granted the companies rights to handle, hold or store and deliver containers at the company's storage facility. The agreements further provided that the volumes of containers to be provided by the Kenya Ports Authority for storage was dependent on current holding capacity at the storages facility, un-availability of stacking space within the Inland Container Depot, Nairobi, growth in trade, any legal framework in place and gazettment and continued gazettment of the storage facility as a customs area. However, evidence that the companies awarded the service provision contracts were gazetted as customs storage areas was not provided for audit review.

In addition, during audit inspection in the month of September 2019 at the Inland Container Depot Nairobi, details of the number of containers transferred to the storage warehouse per day and evidence of un-availability of space at the Depot before approval of transfer of the containers were not provided for audit verification.

Consequently, the completeness of the storage revenue of Kshs.10,603,722,000 and validity of the contracts for warehouse storage facilities awarded to the nine companies and whether containers were transferred due to lack of storage space at the Depot could not be confirmed.

## **10 Irregular Procurement and Creation of a Vendor in Systems, Applications and Products (SAP) System**

Review of procurement and payment records and Systems, Applications and Products (SAP) which is the Authority's main finance software revealed that included in the SAP vendors' list is a vendor which was created on 14 October, 2014 without evidence that it was recommended by any user department. The vendor was also not in the list of prequalified suppliers of the Authority. As such, it is not clear how the vendor was identified and created in the SAP system.

The records further indicates that the vendor undertook Local Purchase Order (LPO) financing of various suppliers of the Authority and was paid a total of Kshs.237,899,724 directly by the Authority for goods and services delivered by the suppliers or contractors for a period of three years from 2014/2015 to 2016/2017 financial years. However, it was noted that the Authority does not have an approved policy on LPO financing by financial institutions.

Under the circumstances, the validity, propriety and legality of payments amounting to Kshs.237,899,724 to the vendor for the three years up to 30 June, 2017 could not be confirmed.

## **11 Services and Systems - Unconfirmed Installation**

The property, plant and equipment balance of Kshs.241,554,138,000 includes an amount of Kshs.10,737,789,000 under services and systems, out of which an amount of Kshs.221,333,738 is in respect of Trunking System – Marine Operations as indicated in the Authority's assets register.

Records availed for audit review indicated that Kenya Ports Authority through open tender No. KPA/022/2015-16/MO identified and contracted a vendor to supply, install and commission VHF digital radio trunking system at a cost of Kshs.45,487,563(USD.445,869). Part of the user requirement was that the system be integrated with the Integrated Security System already installed and in use by the Authority. Further, the Authority used direct procurement for the tender and engaged the same vendor for Phase II - deployment of digital radio communication system. This was based on the requirement of conformity as provided in Section 103(2)d of the Public Procurement and Asset Disposal Act, 2015 which states that the procuring entity, having procured goods, equipment, technology or services from a supplier or contractor, determines that additional supplies shall be procured from that supplier or contractor for reasons of standardization or because of the need for compatibility with existing goods, equipment, technology or services. However, the system is entered in the asset register differently while the procurement was for a different system and therefore direct procurement was not applicable.

Further, the contract was awarded at a contract sum of Kshs.96,722,145 (USD.957,645) inclusive of all taxes as per the tender documents. The delivery period was four (4) months and warranty period of one (1) year with notification of award being sent on 31 May 2017. Available records indicated that the vendor requested the Authority to review the contract price claiming that the VAT element was omitted from the tender documents. However, the tender documents had clearly indicated that prices quoted should be VAT inclusive. Subsequently, the Authority varied the contract price upwards by Kshs.15,475,826 (USD 153,226) or 16% to Kshs.112,197,971(USD 1,110,873).

In addition, the Authority on 18 May, 2018 granted approval of another variation from a contract sum of Kshs.112,197,971(USD.1,110,873) by 25% (Kshs.28,049,518 or USD 277,718) to Kshs.140,247,691(USD 1,388,591). Since the contract had been signed on 31 May, 2017, the approval was contrary to Section 139(3) of the Public Procurement and Asset Disposal Act, 2015 which states that no contract price shall be varied upwards within twelve months from the date of the signing of the contract. Further, the Management did not avail the implementation status of the Phase II - deployment of digital radio communication system.

Under the circumstances, the propriety, existence, value for money and status of services and systems balance of Kshs.185,735,254 as at 30 June, 2019 could not be confirmed.

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 systems and overall governance were not effective.

### **1.0 Weak Controls on Management of Overtime**

A four-month analysis of the time management system and payroll reports from November 2018 to February 2019 revealed that a hundred and three (103) employees whose workstation is within the Port were paid overtime of Kshs.26,588,009 for 68,880 hours. However, an audit review of the Integrated Security System report that records access to the Port indicated that the hundred and three (103) employees accessed the Port for 2,624 hours of overtime equal to Kshs.956,787, resulting to a variance of Kshs.25,631,221 which has not been explained nor reconciled.

Further, it was observed that overtime requests and allocations were done by sixteen (16) unionisable employees in grades HG1 and HG3, contrary to Kenya Ports Authority Time and Attendance Policy which designates such responsibility to supervisors in management positions. Therefore, the sixteen (16) unionisable employees requested and allocated overtime for self and their seniors in management amounting to Kshs.10,597,780. This is a pointer to weakness in controls where unionisable staff approve own overtime and that of their seniors or supervisors.

Consequently, the validity of overtime of Kshs.36,229,001 for the year ended 30 June, 2019 could not be confirmed and effectiveness of the controls for overtime could not be ascertained.

### **2.0 Manual Processing of Overtime**

Time management reports availed for audit review indicated that one hundred and fifty-seven (157) employees were exempted from clocking in and out to work. This is contrary to Kenya Ports Authority Time Management Procedure Manual, which states that overtime is paid based on hours worked as per the 2018/2019 Collective Bargain Agreement and Human Resources Manual 2017 and exemption from clocking is not applicable during overtime. As a result, the Management manually processed and paid a total of Kshs.51,869,574, being overtime paid to employees exempted from clocking. Further, details of overtime requests, approvals and evidence of actual overtime hours worked were not availed for audit review.

Consequently, the propriety, accuracy and validity of overtime of Kshs.51,869,574 for the year ended 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and the Board of Directors**

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 and overall governance.

In preparing the financial statements, Management is responsible for assessing the Kenya Ports 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 is aware of the intention to terminate the Authority or to cease operations.

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is charged with governance are responsible for overseeing the Authority's financial reporting process, reviewing the effectiveness of how the Authority 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 overall 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.

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 overall 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. 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.
- 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.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**22 June, 2021**

STATEMENT OF PROFIT & LOSS  
AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2019


	Note	2018/2019 Kshs '000	2017/2018 Kshs '000
Operating Revenue	6	52,758,959	42,738,520
Other Incomes	7	498,843	891,023
<b>Total Revenues</b>		<b>53,257,802</b>	<b>43,629,543</b>
<b>Less Expenses:</b>			
Administrative Expenses	8	(4,044,431)	(3,450,148)
Establishment Expenses	9	(19,992,244)	(17,789,138)
Other Operating Expenses	10	(5,976,959)	(4,899,622)
Depreciation property, plant and equipment	11,12	(10,346,600)	(7,590,886)
Amortization of Intangible Assets	13	(262,568)	(67,877)
<b>Total Operating Expenses</b>		<b>(40,622,802)</b>	<b>(33,797,671)</b>
<b>Operating Profit</b>		<b>12,635,000</b>	<b>9,831,872</b>
Finance Income	14	2,187,175	1,728,950
Finance cost	15	(166,309)	(170,624)
Impairment Loss	16	(646,129)	(1,037,395)
Other Losses	17	(124,232)	(44,324)
<b>Profit before Tax</b>		<b>13,885,505</b>	<b>10,308,479</b>
Tax Charge	18	(4,137,870)	(3,426,742)
<b>Profit for the Year</b>		<b>9,747,635</b>	<b>6,881,737</b>
<b>Other Comprehensive Income (OCI)</b>			
<b>OCI not to be reclassified to Profit/Loss in subsequent years</b>			
Deficit resulting from Pension Valuation		0	(4,747,674)
<b>OCI to be reclassified to Profit/Loss in subsequent years</b>			
Unrealized Foreign Exchange Loss		(59,320)	(168,800)
Unrealized Forex Gain/(Loss) from Valuation of JICA Loan		(968,300)	233,121
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>8,720,015</b>	<b>2,198,384</b>

**STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2019**

	Note	2018/2019 Kshs '000	2017/2018 Kshs '000
<b>Non-Current Assets:</b>			
Property Plant and Equipment	11	241,554,138	144,614,772
Assets Held for Sale	19	11,618	400
Intangible Assets	13	1,151,296	675,383
Leased Property	12	717,063	805,819
Long Term Investment	20	1,748,887	3,244,997
<b>Total Non- Current Assets</b>		<b>245,183,002</b>	<b>149,341,371</b>
<b>Current Assets:</b>			
Inventories	21	404,813	407,965
Receivables & Prepayments	22	15,946,216	14,500,357
Tax paid in advance	23	0	873,216
Short Term deposits	24	25,099,818	17,988,504
Bank and Cash Balances	24	859,114	788,363
<b>Total Current Assets</b>		<b>42,309,961</b>	<b>34,558,405</b>
<b>TOTAL ASSETS</b>		<b>287,492,963</b>	<b>183,899,776</b>
<b>Capital and Reserves:</b>			
Revaluation Reserves	25	111,646,031	39,881,910
General reserves	26	90,620,573	78,426,542
Grants	27	5,318,100	5,044,052
<b>Total Capital and Reserves</b>		<b>207,584,704</b>	<b>123,352,504</b>
<b>Non-Current Liabilities:</b>			
GOK Project Funds	28	27,386,157	16,212,039
Borrowings	29	32,729,833	29,493,976
Deferred Tax liability	30	5,231,256	5,281,505
Retirement Benefit Liability	32	786,300	1,767,500
<b>Total Non- Current Liabilities</b>		<b>66,133,546</b>	<b>52,755,020</b>
<b>Current Liabilities</b>			
Borrowings	29	820,134	791,109
Trade and other payables	31	11,212,048	7,001,143
Retirement Benefit Liability	32	535,200	0
Current Tax payable	23	1,207,331	0
<b>Total Current Liabilities</b>		<b>13,774,713</b>	<b>7,792,252</b>
<b>TOTAL CAPITAL &amp; LIABILITIES</b>		<b>287,492,963</b>	<b>183,899,776</b>

The financial statements were approved by the Board of Directors on 23 September 2019 and signed on its behalf by:

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

  
CPA Patrick W. Nyoike  
**GM, FINANCE**  
ICPAK M/No: 3585

  
Dr. Arch. Daniel Ogwoka Manduku  
**MANAGING DIRECTOR**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2019**

	Note	REVALUATION RESERVES Kshs '000	GENERAL RESERVES Kshs '000	GRANTS Kshs '000	TOTAL Kshs '000
<b>Balance as at 01.07.2018</b>		<b>39,881,910</b>	<b>78,426,542</b>	<b>5,044,052</b>	<b>123,352,504</b>
Profit After Tax		0	9,747,635	0	9,747,635
<b>Other Comprehensive Income;</b>					
Unrealized Forex Loss	26	0	(59,320)	0	(59,320)
<b>Others;</b>					
Revaluation effect/Adjustments	25	71,764,121	3,474,016		75,238,137
Trade Mark East Africa	27	0	0	274,048	274,048
Revaluation effect of JICA Loan	26	0	(968,300)	0	(968,300)
<b>Balance as at 30.06.2019</b>		<b>111,646,031</b>	<b>90,620,573</b>	<b>5,318,100</b>	<b>207,584,704</b>

**FOR THE YEAR ENDED 30 JUNE 2018**

	Note	REVALUATION RESERVES Kshs '000	GENERAL RESERVES Kshs '000	GRANTS Kshs '000	TOTAL Kshs '000
<b>Balance as at 01.07.2017</b>		<b>43,296,547</b>	<b>73,813,608</b>	<b>581,153</b>	<b>117,691,308</b>
Profit After Tax		0	6,881,737	0	6,881,737
<b>Other Comprehensive Income;</b>					
Unrealized Forex Loss		0	(168,800)	0	(168,800)
Pension Valuation Adjustment	32	0	(4,747,674)	0	(4,747,674)
<b>Others;</b>					
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
<b>Balance as at 30.06.2018</b>		<b>39,881,910</b>	<b>78,426,542</b>	<b>5,044,052</b>	<b>123,352,504</b>

**STATEMENT OF CASH FLOW  
FOR THE YEAR ENDED 30 JUNE 2019**

	Notes	2018/2019 Kshs '000	2017/2018 Kshs '000
<b>OPERATING ACTIVITIES:</b>			
Cash Generated from Operations	33	26,016,487	12,085,039
Interest Received	7&14	2,188,351	1,729,468
Interest Paid	15	(41,755)	(48,466)
Tax Paid	23	(1,749,966)	(3,374,105)
Dividends Paid	38	0	(1,000,088)
Pension paid		(446,000)	0
Pension reimbursement		14,122	0
<b>Net cash generated from Operating Activities</b>		<b>25,981,239</b>	<b>9,391,848</b>
<b>INVESTING ACTIVITIES:</b>			
Purchase of Property, Plant and Equipment	36	(30,947,239)	(14,039,761)
Direct Acquisitions Property, Plant and Equipment		(320,419)	(909,978)
Proceeds from Disposal of Assets		5,082	11,116
Purchase of Long Term Investment	20	(29,337)	(29,231)
Transfer of Chase bank deposits to SBM deposits		(2,273,555)	0
Transfer of SBM deposits to short term deposits		1,515,703	0
Proceeds from sale of Surveyed Stock	17	2,848	8,462
<b>Net Cash used in Investing Activities</b>		<b>(32,046,917)</b>	<b>(14,959,392)</b>
<b>FINANCING ACTIVITIES:</b>			
Receipt of GoK Project Funds	37	11,179,000	3,171,000
Payment of JICA I Loan	29	(785,828)	(794,496)
Receipt of JICA II Loan	29	2,854,571	6,346,055
<b>Net Cash generated from Financing Activities</b>		<b>13,247,743</b>	<b>8,722,559</b>
<b>Net increase in Cash &amp; Cash Equivalent</b>		<b>7,182,065</b>	<b>3,155,015</b>
<b>Cash &amp; Cash Equivalents as at 1 July</b>		<b>18,776,866</b>	<b>15,621,852</b>
<b>Cash and Cash Equivalents as at 30 June</b>	24	<b>25,958,932</b>	<b>18,776,867</b>

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
FOR THE YEAR ENDED 30 JUNE 2019**

	<b>Final Budget 2018/2019 Kshs '000</b>	<b>Actual on Comparable Basis 2018/2019 Kshs '000</b>	<b>Performance Difference 2018/2019 Kshs '000</b>	<b>%</b>
<b>Revenue</b>				
Operating Revenue	44,748,106	52,758,959	8,010,854	17.90%
Other Incomes	360,880	498,843	137,962	38.23%
<b>Total Revenues</b>	<b>45,108,986</b>	<b>53,257,802</b>	<b>8,148,816</b>	<b>18.06%</b>
<b>Expenses:</b>				
Administrative Expenses	(4,001,922)	(4,044,431)	(42,509)	1.06%
Establishment Expenses	(20,355,948)	(19,992,244)	363,704	-1.79%
Operating Expenses	(5,908,775)	(5,976,959)	(68,184)	1.15%
Depreciation & Amortization	(8,433,291)	(10,609,168)	(2,175,877)	25.80%
<b>Total Operating Expenses</b>	<b>(38,699,936)</b>	<b>(40,622,802)</b>	<b>(1,922,866)</b>	<b>4.97%</b>
<b>Operating Profit</b>	<b>6,409,050</b>	<b>12,635,000</b>	<b>6,225,950</b>	<b>97.14%</b>
Finance Income	1,049,400	2,187,175	1,137,775	108.42%
Finance cost	(43,400)	(166,309)	(122,909)	283.20%
Impairment Gain/(Loss)	(30,000)	(646,129)	(616,129)	2,053.76%
Other Gains/(Losses)	6,868	(124,232)	(131,100)	1,908.94%
<b>Profit before Tax</b>	<b>7,391,918</b>	<b>13,885,505</b>	<b>6,493,587</b>	<b>87.85%</b>

**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 2019**

### **1. Entity 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 & Basis of Preparation**

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 2017/18 have been stated in the financial statements to conform to changes in presentation.

The financial statements were approved by the Board of Directors on 23 September 2019.

The accounting policies applied in the preparation of these financial statements are set out below. The Authority adopted all the new and revised IFRS as adopted by the PSASB and IASB that are relevant to its operations and are effective for accounting periods beginning on 1 January 2018. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 that are effective from 1 January 2018, the adoption of the standards did not have a material effect in the financial statements.

The financial statements are prepared and presented in Kenya Shillings (Kshs), which is the functional and reporting currency of the Authority and all values are rounded to the nearest thousand (Kshs '000). The financial statements are prepared on 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.

#### **b. Going concern**

Based on the financial performance of the Authority and the risk management policies, the Board is of the opinion that the Authority is well placed to continue business in the foreseeable future. The financial report are therefore prepared on the going concern basis, which contemplates the continuity of normal business activities, the realization of assets and the settlement of liabilities in the ordinary course of business.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### 3. Changes in Accounting Policies and Disclosures

#### i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

##### **IFRS 16: Leases**

The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model, which requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognized in respect of most operating leases where the Company is the lessee. This standard is expected to be adopted by the Authority in the financial statements for the year ended 30 June 2020 and the extent of the impact is still being determined

##### **IFRIC 23: Uncertainty Over income tax treatments**

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.

##### ***Amendments to IFRS 9 titled Prepayment Features with Negative Compensation (issued in October 2017)***

The amendments, applicable to annual periods beginning on or after 1 January 2019, allow entities to measure pre-payable financial assets with negative compensation at amortized cost or fair value through other comprehensive income if a specified condition is met.

##### ***Amendments to IAS 28 titled Long-term Interests in Associates and Joint Ventures (issued in October 2017)***

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### Relevant new standards and amendments to published standards effective for the year ended 30 June 2019(Continued)

#### ***Amendments to IFRS 3 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017***

The amendments, applicable to annual periods beginning on or after 1st January 2019, provide additional guidance on applying the acquisition method to particular types of business combination.

#### ***Amendments to IFRS 11 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017***

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that when an entity obtains joint control of a business that is a joint operation, it does not re-measure its previously held interests.

#### ***Amendments to IAS 12 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017***

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that all income tax consequences of dividends should be recognized when a liability to pay a dividend is recognized, and that these income tax consequences should be recognized in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions to which they are linked.

#### ***Amendments to IAS 23 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017***

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

#### ***Amendments to IAS 19 titled Plan Amendment, Curtailment or Settlement (issued in February 2018)***

The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2019, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity re-measures its net defined benefit liability (asset) in the manner specified in the amended standard.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019

#### ***Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018- Applicable for annual periods beginning 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. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

### iii. Early adoption of standards

The entity did not early – adopt any new or amended standards in the year.

## 4. Summary of Significant Accounting Policies

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

### (a) Revenue Recognition

IFRS 15 replaced the previous revenue recognition requirements in IAS 18 Revenue and applies to all revenue arising from contracts with customers. According to the new standard, revenue is recognised when a customer obtains control of the goods or services.

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. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

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

The Authority's revenue mainly consists of revenue from ports related services and lease rentals. The Authority's current practises for recognising revenue have shown to comply in all material aspects with the new standard. Therefore, IFRS 15 did not have a significant impact on the Authority's accounting for revenue recognition.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### Revenue Recognition (Cont'd)

Revenues earned by the Authority are recognised on the following bases;

**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, plant and 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 equipments 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 financial year 2017/2018.

During the year, the following classes of Non-current assets were valued:-

- Land and Buildings
- Plant and Equipments
- Basic Constructions
- Services and systems
- Intangible Assets

The effective date of the valuation was 31st January, 2014 and the exercise was undertaken by M/s Sec & M Limited. Details and qualification for the director of M/s Sec & M Ltd are;

- Director Name ;H.M. Kaburu,
- M.A. (Valn & Ppty Mgmt) University of Nairobi, MRICS No. 1280168
- B.A Land Econ (Hons) University of Nairobi, MISA No. 690,REA
- NEMA EIA/EA Lead Expert No 1025
- Chartered Valuation Surveyor/RV 405

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### Property, Plant and Equipment (Cont'd)

The methodology, basis of valuation and significant assumptions made were in accordance with the procedures and guidelines as laid down by the international Assets Valuation Standards Committee. M/s Sec & M Co. Ltd valuations and appraisals are carried out in accordance with the RICS Appraisal and Valuation Standards, and are Uniform Standards of Professional Appraisal Practice (USPAP) compliant. The valuer therefore considers all the three approaches to valuation

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;

	<b>Rate</b>
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%

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

### **Depreciation and impairment of property, plant and equipment (Cont'd)**

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.

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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### (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 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 31<sup>st</sup> December 2012 to new entrants and future accrual of benefits for members below age 45 as at 31<sup>st</sup> 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 333<sup>rd</sup> 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 30 June 2019, the scheme had an actuarial deficit of Kshs 1,321.5 million (Kshs 1,767.5 million deficit FY 2017/18). Within the year the Authority made additional monthly payments of Kshs 44.6 million as part of the remedial plan to offset the deficit. The remedial plan as per the amortization schedule runs for six (6) years.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### Retirement Benefits (Cont'd.)

#### Defined Contribution

The Authority started a defined contribution scheme for her employees who were below the age of 45 as at 31<sup>st</sup> 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 1,168 million (FY 2017/2018: Kshs 1,009 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.

#### (l) 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### Financial Instruments (Cont'd)

The Authority implemented IFRS 9 Financial Instruments as of July 1, 2018, which substantially changed the classification and measurement of financial instruments. The new standard requires impairments to be based on a forward-looking model, changes the recognition of certain fair value changes, and amends disclosure requirements. The impairment of financial assets, including trade receivables and other receivables, is now assessed **using an expected credit loss (ECL) model**; previously, the incurred loss model was used. Given the nature of KPA financial assets, the Authority had no significant impact to its provisions for doubtful accounts or impairments from this change. The adoption had no impact on the financial statements.

### Classification of financial assets (Policy applicable under IFRS 9 from July 2018)

IFRS 9 eliminates the previous IAS 39 categories for financial assets such as held to maturity, loans and receivables, fair value through profit or loss and available for sale. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and also on the basis of the contractual cash flows characteristics of the financial instrument.

Under IFRS 9, on initial recognition, a financial asset is classified and measured at:

#### ➤ Amortised cost;

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Gains and losses are recognised in profit or loss when the asset is derecognized or impaired. The Authority's financial assets at amortised cost includes trade receivables, other receivables and cash and cash equivalents.

Trade receivables are amounts due from customers for or services performed in the ordinary course of business. They are generally due for settlement within 90 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional. The Authority holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Authority's impairment policies and the calculation of the loss allowance are provided under Note 16.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### Financial Instruments (Cont'd)

➤ **Fair value through other comprehensive income ('FVOCI') –**

**Debt instrument;** A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**Equity instrument;** On initial recognition of an equity investment that is not held for trading, the Authority may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

➤ **Fair value through profit or loss ('FVTPL').**

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

In addition, on initial recognition, the Authority may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition unless the business model changes for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

### Initial recognition of financial assets

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Authority's financial assets as at July, 2018.

<b>Financial assets</b>		
Trade receivables	Loans and receivables	Amortised cost
Other receivables after adoption of IFRS 15	Loans and receivables	Amortised cost
Cash and cash equivalents	Loans and receivables	Amortised cost
<b>Financial liabilities</b>		
Trade payables	Other financial liabilities	Other financial liabilities
Loans	Other financial liabilities	Other financial liabilities
Other liabilities	Other financial liabilities	Other financial liabilities

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### Financial Instruments (Cont'd)

#### Derecognition of financial assets

The Authority derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred and it does not retain control of the financial asset.

#### Impairment of non-derivative financial assets (Policy applicable under IFRS 9 from 1 January 2018)

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The financial assets at amortised cost consist of trade receivables and cash and cash equivalents.

Trade and other receivables are initially recognised at fair values and subsequently measured at amortised cost using the effective interest method, less an allowance for expected credit loss ("ECL").

The Authority applied the 'simplified approach' for determining the allowance for ECL for trade receivables, where lifetime ECL are recognised in the Profit and Loss at initial recognition of receivables and updated at each reporting date. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of the receivable. When determining the allowance for ECL, the Group considers reasonable and supportable information that is relevant and available for customer types. This includes both qualitative and quantitative information based on the Group's historical experience and forward looking information such as general economic factors as applicable. Loss events include financial difficulty or bankruptcy of the debtor, and breaches of contracts.

Trade and other receivables are written off against the allowance for ECL when there is no reasonable expectation of recovery. Subsequent recoveries of amounts previously written off are recognised in the Profit and Loss

The Authority assumes that the credit risk on a financial asset increases significantly if it is more than 90 days past due. The application of IFRS 9's impairment requirements at July 2018 did not result in any significant additional impairment allowance.

#### Non-derivative financial liabilities Classification, initial recognition and measurement

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities at amortised cost or FVTPL.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### Financial Instruments (Cont'd)

The Authority's non-derivative financial liabilities consist of loans and borrowings, bank overdrafts, amounts due to related parties, and trade and other payables. All non-derivative financial liabilities are recognised initially at fair value less any directly attributable transaction costs. The Authority classifies all its non-derivative financial liabilities as financial liabilities to be carried at amortised cost using effective interest method.

The subsequent measurement of non-derivative financial liabilities are carried at their amortised cost using the effective interest method.

The Authority derecognises a financial liability when its contractual obligations are discharged or cancelled or expired. The Authority also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

Prior to the adoption of IFRS 9 on July 1, 2018, the Authority accounting policy for financial instruments was as follows:

- **Classification**

The Authority classified its financial instruments into the following categories;

- i. 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.
- ii. 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.
- iii. 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.
- iv. Financial liabilities, which comprise all financial liabilities except financial liabilities carried at fair value through profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### Financial Instruments (Cont'd)

- **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. The Authority 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### Financial Instruments (Cont'd)

- **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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### (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 currency, 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.

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

### **(u) Grants from donors and national government**

The grants are received in form 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 2017/18 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 2019.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### 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,  
Property, plant and equipment balances represent a significant component of the Authority's assets. Property, plant and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the assets. The management reviews the estimated useful lives of property, plant and equipment on an annual basis based on factors such as expected level of usage, forecasts and assumptions. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above.
- Basis of Valuations, The methodology, basis of valuation and significant assumptions made were in accordance with the procedures and guidelines as laid down by the international Assets Valuation Standards Committee and consequently in accordance with IFRS. The valuer's exercised judgement when they conducted physical inventory and inspection of assets, investigated market conditions, examined documents and specifications provided to them.  
M/s Sec & M Co. Ltd valuations and appraisals are carried out in accordance with the RICS Appraisal and Valuation Standards and are Uniform Standards of Professional Appraisal Practice (USPAP) complaint. The valuer therefore considers all the three approaches to valuation.
- Expected Credit Loss of Trade receivables,  
At each reporting date, the Authority assesses whether trade and other receivables are credit- impaired. The allowance for ECL is based on management's assessment of the collectability of individual customer accounts taking into consideration the credit worthiness and financial condition of those customers. The Authority also records an allowance for all other receivables based on management's collective assessment of their collectability taking into consideration multiple factors including historical experience of credit losses, forward looking information as applicable and the aging of the receivables with allowances generally increasing as the receivable ages. If there is a deterioration of customers' financial condition or if future default rates in general differ from those currently anticipated, the Authority may have to adjust the allowance for credit losses, which would affect earnings in the period that adjustments are made.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### Critical Accounting Estimates and Assumptions (Cont'd)

- 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, Judgements required by actuaries in respect of discount rates, future salary increments, mortality rates and inflation rates used for computation of defined benefit liability.
- Provisions for obsolete inventory,
- Deferred tax liabilities.

### *Chase Bank (IR) and SBM Bank Deposits*

Chase Bank Ltd was placed under receivership on 7th April 2016. Based on the Kenya Gazette notice No 6833 dated 6th July, 2018, a transfer of 75% of the deposits moved to SBM (Kenya) Ltd while 25% was retained by Kenya Deposit Insurance Corporation. The transition process was completed on 17th August 2018 and SBM Kenya Ltd opened its doors on 20th August 2018 offering full banking operations. In the reporting year, SBM Kenya Ltd transferred a total of Kshs. 1,175 million including interest to the Authority. The Authority's current and savings account at the Bank have nil balances. The remaining 37.5% of the deposits are on fixed deposit account earning interest at 6.3% p.a with restricted access; maturing as one-third on first, second and third anniversary respectively from August 2019.

### *Revenue Recognition*

As stated in Note 4 (a) on Sales of services 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. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

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.

### *Contingent Liabilities*

The management consults with its legal counsel on matters related to litigation, and other experts both within and outside the Authority with respect to matters in the ordinary course of business. As at the reporting date, the Authority was involved in various legal proceedings where it has been vigorously defending its claims as disclosed in Note 43.

Assessment on whether the risk of loss is remote, possible or probable requires significant judgement given the complexities involved.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019**

**6. Operating Revenue**

	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Pilotage	580,340	615,289
Tug Services Dues	1,705,816	1,778,994
Mooring	312,018	336,546
Navigational Dues	255,210	265,026
Port Dues	569,003	595,349
Dockage	605,871	731,436
Fresh Water - Normal	3,903	5,874
Laid Up Vessels	4,988	3,167
Security	153,474	160,068
Stevedoring	13,721,702	13,695,122
Hire of Labor/Equipment	222,959	231,391
Handling of Empty Containers	2,376,532	2,119,546
Handling of Full Containers	9,189	3,886
Shore handling	5,306,142	4,692,763
Re Marshaling Charges	2,156,876	574,813
Container Stripping/Stuffing	2,540	1,615
Verification Charges	10,045	23,977
Storage of General Cargo	188,384	546,649
Storage - Empty Containers	697,600	152,133
Storage-Full Containers	9,906,122	2,630,174
Jetty Fees	939	1,591
Licenses	128,677	103,349
Other Revenue	137,838	125,244
Wharfage	13,648,739	13,284,608
Sale of Fresh Water	199	340
Other Miscellaneous Revenue	53,853	59,570
<b>TOTAL</b>	<b>52,758,959</b>	<b>42,738,520</b>

Operating revenue increased by Kshs. 10,020 million or 23.4%. The growth was mainly due to ICD Nairobi collections on storage and remarkshalling charges. The slow cargo clearance and uptake of cargo by owners resulted in congestion and additional storage and remarkshalling charges. The growth in Containerised cargo throughput (TEUs) of 12.7% from 1.2 million Teus to 1.3 million also contributed to the increase.

However, the number of vessel call declined from 1,696 vessels in FY2017/18 to 1,609 vessel, resulting in a decline of revenue from marine services. Lower vessel calls implies less revenue from navigational dues, docking, tug services among others. The operationalization of the 2<sup>nd</sup> container terminal continues to attract ships of bigger capacity and with an improved vessel turnaround time. The type and number of vessel handled are shown under management discussion and analysis report herein.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019**

**7. Other Income:**

	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Rent & Rates Receivable	202,797	251,383
Bandari College	33,518	31,392
Recovery From Housed Employees	109,297	111,535
Sale of Passes	101,311	115,049
Sale of Books and Documents	121	185
Sundry Income	50,623	380,961
Interest on Staff Loans	1,176	518
<b>TOTAL</b>	<b>498,843</b>	<b>891,023</b>

**8. Administrative Expenses:**

	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Telephone/Telex/Fax Services	10,287	8,377
Water Supply Services	151,087	149,511
City & Municipal Council Rates	57,922	55,329
Office Rental-Kampala	9,383	8,784
Library & Archives	7,716	8,703
Nursery Schools	6,075	4,641
Laundry	291	3,298
Provisions and Catering	26,835	40,098
Cleaning of Carpets & Curtains	446	435
Directors Allowances	66,059	38,589
Furniture and Equipment	8,911	10,161
Printing and Stationery	93,825	76,909
Postage & Courier Services	6,253	4,624
Office Incidentals and Consumables	33,690	29,491
Entertainment Allowance	6,984	7,639
Club Membership Fees	1,684	1,797
Police Services	13,930	1,244
Security Guards Services	69,487	45,541
Port Passes	25,481	2,756
Publicity and Advertising	462,850	187,259
Subscriptions and Donations	9,380	9,559
Hire of Commuter Bus Service	132,381	139,004
Agricultural Society of Kenya Shows	49,078	23,377
Sports	96,015	134,920
Welfare	44,514	39,310
Industrial Relations Costs	11,315	12,652
Development Studies	291,033	117,895
Consultant Fees	28,503	50,612
Training	447,245	389,605
Curriculum Development	15,586	19,926

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019**

<b>Administrative Expenses Cont'd:</b>	<b>2018/2019 Kshs '000</b>	<b>2017/2018 Kshs '000</b>
Trade Testing Materials	2,881	2,695
Recruitment Costs	27,824	12,490
Accommodation Costs	0	412
Retirees Expenses	16,983	18,158
Survey Fees	150	61
Computer & Network Maintenance	229,886	242,194
Website	267	0
Licenses & Computers	666,278	710,795
Insurance Premiums	427,873	378,114
Un-Insured Loss	4,799	2,634
Car Registration & Licenses	260	274
Stock Take Expenses	855	1,113
Corporate Social Responsibility	125,229	63,295
Victuals & Snacks	59,234	30,602
Wajibika	25,814	21,040
Professional Education	59,156	44,680
WHT Imported Services	33,133	11,100
Audit Fees	8,050	8,050
Bank Charges & Commission	14,072	12,928
Legal Fees	136,998	246,816
Revaluation Fees	20,443	20,651
<b>TOTAL</b>	<b>4,044,431</b>	<b>3,450,148</b>

CSI expenditure increased by 98%, as states under the CSI report the Authority is the single largest employer within the Coast Province and thus it continues to contribute to worthy causes such as education, health, charities, disaster, relief funds, sponsorship of conferences and Bandari Football Club.

Recruitment costs also increased as management advertised senior manager positions in operations, engineering, finance, board and legal services, corporate services, infrastructure development, human resources and security division. The process is still ongoing.

Increase in Board expenditure was mainly as a result of the transition of the Board from old to new membership. As stated under the Statement of Corporate Governance, new members had to be inducted both from a governance perspective, operations of KPA, Mwongozo training as well as knowing and familiarization with various KPA installations among others.

Kenya Ports Authority continues to register a trailblazing performance in the Agricultural Society of Kenya (ASK) exhibitions and trade fairs scooping numerous top awards. The Authority participated in all regional shows and clinched first prizes in several categories including best organization in Environmental Quality Standards, Commercial and Industry, ICT application, Strategies of International Trade and Exports, CSR activities and the best organization in activities that promote Youth empowerment.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### Administrative Expenses Cont'd

The Authority continues to participate in various sports activities locally and in Africa. Including the KECOSO games held in Kakamega county where it won the top prize "Mawasiliano Shield" and the 24 Africa champion basketball games.

Expenditure in the Publicity and advertising includes advertising campaign in Kenya, Uganda, Rwanda and Burundi. A total of Kshs. 141 million related to ongoing campaigns was accrued. Expenditure related to various business luncheon for stakeholders was also incurred.

A total of 4,414 staff were trained in FY2018/2019. Staff were trained in administration, operations, technical, marine and other local courses. The total of 302 staff were trained overseas, mainly on sea-time marine training, marine revalidation courses, nuclear and radiation courses, advanced financial and human resource courses and other conferences.

#### 9. Establishment Expenses:

	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Basic Salary	7,207,572	6,449,691
Overtime	3,162,857	2,688,474
Staff Allowances	2,210,961	1,936,776
Normal Staff Housing	2,724,362	2,607,030
Leased Staff Housing	14,960	12,996
Special Accommodation	33,495	47,627
Duty Travel	437,891	323,955
Leave Travel	259,559	227,416
Transport Allowance	1,614,853	1,542,431
Intern Allowances	6,540	4,939
Staff Pension-DC	1,168,465	1,008,693
Staff Pension-DB	164,919	118,152
Staff Gratuity	7,523	13,218
Long Service Awards	4,711	2,186
Social Security	308	623
Medicines	301,249	251,997
Hospital/Referral Bills	620,907	495,416
First Aid	11,107	5,858
Medical Education Expenses	19,051	22,053
Incentive Scheme	20,954	29,607
<b>TOTAL</b>	<b>19,992,244</b>	<b>17,789,138</b>

During the year, overtime expenditure increased by 18% from Kshs 2,688 million to Kshs 3,163 million. This was mainly on account of increased operational activities.

At the close of the year, the Authority had 6,791 employees. 14 employees including the Managing director and the General Manager of Human resource and Administration are on contracts terms. A total of 16 new employees were also recruited in the financial year.

In compliance with the Government directive on interns, the Authority took in 52 interns. KPA also awarded long serving staff who retired during the year as per policy. The retirees had served the Authority for an average of 30 years each.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019**

**10. Operating Expenses:**

	<b>2018/2019 Kshs '000</b>	<b>2017/2018 Kshs '000</b>
Operational / Running Supplies	648,909	503,881
Marine Spares	547,666	302,581
Diving & Signaling Equipment	0	19
Buoys	1,751	2,663
Flowers & Plants	517	348
Crane Spares	298,340	379,545
Fuel	1,148,754	862,123
Oils and Lubricants	56,486	88,629
Cleansing Agents	11,690	6,857
Gas Cutting/ Welding Supplies	24	0
Uniforms & Clothing	354,579	204,684
Cleaning Implements/ Detergents	22,712	37,821
Workshop Tools And Equipment	80,912	69,283
Comm./ Equipment Spares	30,777	24,249
Medical Equipment	8,373	5,499
Repairs: Port Infrastructure	1,528,600	1,028,154
Electricity Services	513,504	445,363
Mobile Plant Spares	246,308	259,937
Electrical Spares	275,545	415,088
Tyres And Tubes	150,306	196,083
Refrigeration/ Air Conditioning	33,544	36,710
Batteries Charges And Clocks	17,662	30,105
<b>TOTAL</b>	<b>5,976,959</b>	<b>4,899,622</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### 11. Property, Plant & Equipment (with Revaluation) For the Year Ended 30 June 2019

Cost / Valuation	Land Leased Out	Land And Buildings	Equipment, Motor Vehicles And Furniture	Services And Systems	Basic Constructions	Balance As At 30 June, 2019
	Kshs `000	Kshs `000	Kshs `000	Kshs `000	Kshs `000	Kshs `000
<b>Balance as at 01.07.2018</b>	<b>6,162,840</b>	<b>25,073,380</b>	<b>38,670,469</b>	<b>9,835,007</b>	<b>74,074,518</b>	<b>153,816,214</b>
Additions	0	360,898	8,983,059	408,825	541,615	10,294,397
Assets Held for Sale	0	0	(214,870)	0	0	(214,870)
Revaluation Effect	9,028,060	49,044,150	(8,059,403)	(261,236)	(4,147,969)	45,603,602
Re-classification	0	(22,600)	0	0	0	(22,600)
Disposals	0	0	(136,158)	0	0	(136,158)
<b>Balance as at 30.06.2019</b>	<b>15,190,900</b>	<b>74,455,828</b>	<b>39,243,097</b>	<b>9,982,596</b>	<b>70,468,164</b>	<b>209,340,585</b>
<b>Depreciation</b>						
<b>Balance as at 01.07.2018</b>	0	<b>2,569,098</b>	<b>16,617,793</b>	<b>2,593,219</b>	<b>13,587,822</b>	<b>35,367,932</b>
Eliminated on Disposal	0	0	(133,512)	0	0	(133,512)
Revaluation Effect		(2,172,436)	(17,414,147)	(260,830)	(9,012,340)	(28,859,753)
Charge for the year	0	419,022	3,372,833	588,354	5,943,007	10,323,216
Held for Sale	0	0	(203,651)	0	0	(203,651)
<b>Balance as at 30.06.2019</b>	0	<b>815,684</b>	<b>2,239,316</b>	<b>2,920,743</b>	<b>10,518,489</b>	<b>16,494,232</b>
N.B.V as at 01.07.2018	6,162,840	22,504,282	22,052,676	7,241,788	60,486,696	118,448,282
<b>NBV as at 30.06.2019</b>	<b>15,190,900</b>	<b>73,640,144</b>	<b>37,003,781</b>	<b>7,061,853</b>	<b>59,949,675</b>	<b>192,846,353</b>
W.I.P as at 01.07.2018	0	50,305	1,955,719	602,854	24,051,557	26,660,435
<b>W.I.P as at 30.06.2019</b>	0	<b>1,657,538</b>	<b>2,669,498</b>	<b>3,676,553</b>	<b>41,198,142</b>	<b>49,201,730</b>
<b>Sub-Total</b>	<b>15,190,900</b>	<b>75,297,682</b>	<b>39,673,279</b>	<b>10,738,406</b>	<b>101,147,817</b>	<b>242,048,083</b>
Impairment	0	(199,820)	(575)	(617)	(292,933)	(493,945)
<b>Grand Total</b>	<b>15,190,900</b>	<b>75,097,862</b>	<b>39,672,704</b>	<b>10,737,789</b>	<b>100,854,884</b>	<b>241,554,138</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019**

**Property, Plant & Equipment (without Revaluation)  
For the Year Ended 30 June 2019**

Cost / Valuation	Land Leased Out	Land and Buildings	Equipment, Motor Vehicles, and Furniture	Services and Systems	Basic Construction	Balance as at 30 June, 2019
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
<b>Balance as at 01.07.2018</b>	<b>6,162,840</b>	<b>25,073,380</b>	<b>38,670,469</b>	<b>9,835,007</b>	<b>74,074,518</b>	<b>153,816,214</b>
Additions	0	360,898	8,983,059	408,825	541,615	10,294,397
Assets Held for Sale	0	0	(214,870)	0	0	(214,870)
Disposals	0	0	(136,158)	0	0	(136,158)
Re-classification	0	(22,600)	0	0	0	(22,600)
<b>Balance as at 30.06.2019</b>	<b>6,162,840</b>	<b>25,411,678</b>	<b>47,302,500</b>	<b>10,243,832</b>	<b>74,616,133</b>	<b>163,736,983</b>
<b>DEPRECIATION</b>						
<b>Balance as at 01.07.2018</b>	<b>0</b>	<b>2,569,098</b>	<b>16,617,793</b>	<b>2,593,219</b>	<b>13,587,822</b>	<b>35,367,932</b>
Eliminated on Disposal	0	0	(133,512)	0	0	(133,512)
Charge for the year	0	323,019	2,436,222	586,518	4,825,490	8,171,249
Held for Sale	0	0	(203,651)	0	0	(203,651)
<b>Balance as at 30.06.2019</b>	<b>0</b>	<b>2,892,117</b>	<b>18,716,852</b>	<b>3,179,737</b>	<b>18,413,312</b>	<b>43,202,018</b>
N.B.V as at 01.07.2018	6,162,840	22,504,282	22,052,676	7,241,788	60,486,696	118,448,282
<b>NBV as at 30.06.2019</b>	<b>6,162,840</b>	<b>22,519,561</b>	<b>28,585,648</b>	<b>7,064,095</b>	<b>56,202,821</b>	<b>120,534,965</b>
W.I.P as at 01.07.2018	0	50,305	1,955,719	602,854	24,051,557	26,660,435
<b>W.I.P as at 30.06.2019</b>	<b>0</b>	<b>1,657,538</b>	<b>2,669,498</b>	<b>3,676,553</b>	<b>41,198,142</b>	<b>49,201,730</b>
<b>Sub-Total</b>	<b>6,162,840</b>	<b>24,177,099</b>	<b>31,255,146</b>	<b>10,740,648</b>	<b>97,400,963</b>	<b>169,736,695</b>
Impairment	0	(199,820)	(575)	(617)	(292,933)	(493,945)
<b>Grand Total</b>	<b>6,162,840</b>	<b>23,977,279</b>	<b>31,254,571</b>	<b>10,740,031</b>	<b>97,108,030</b>	<b>169,242,750</b>
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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### Property, Plant & Equipment For the Year Ended 30 June 2018

Cost / Valuation	Land Leased Out Kshs '000	Land And Buildings Kshs '000	Equipment, Motor Vehicles And Furniture Kshs '000	Services And Systems Kshs '000	Basic Constructions Kshs '000	Balance As At 30 June, 2018 Kshs '000
<b>Balance as at 01.07.2017</b>	<b>6,162,840</b>	<b>24,360,830</b>	<b>31,658,534</b>	<b>8,754,324</b>	<b>72,870,115</b>	<b>143,806,643</b>
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)
<b>Balance as at 30.06.2018</b>	<b>6,162,840</b>	<b>25,073,380</b>	<b>38,670,469</b>	<b>9,835,007</b>	<b>74,074,518</b>	<b>153,816,214</b>
<b>Depreciation</b>						
<b>Balance as at 01.07.2017</b>	0	<b>2,144,555</b>	<b>13,268,727</b>	<b>1,984,921</b>	<b>10,677,986</b>	<b>28,076,189</b>
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
<b>Balance as at 30.06.2018</b>	0	<b>2,569,098</b>	<b>16,617,793</b>	<b>2,593,219</b>	<b>13,587,822</b>	<b>35,367,932</b>
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
<b>NBV as at 30.06.2018</b>	<b>6,162,840</b>	<b>22,504,282</b>	<b>22,052,676</b>	<b>7,241,788</b>	<b>60,486,696</b>	<b>118,448,282</b>
W.I.P as at 01.07.2017	0	29,672	687,780	1,234,973	16,021,859	17,974,284
<b>W.I.P as at 30.06.2018</b>	0	<b>50,305</b>	<b>1,955,719</b>	<b>602,854</b>	<b>24,051,557</b>	<b>26,660,435</b>
<b>Sub-Total</b>	<b>6,162,840</b>	<b>22,554,587</b>	<b>24,008,395</b>	<b>7,844,642</b>	<b>84,538,253</b>	<b>145,108,717</b>
Impairment	0	(199,820)	(575)	(617)	(292,933)	(493,944)
<b>Grand Total</b>	<b>6,162,840</b>	<b>22,354,767</b>	<b>24,007,820</b>	<b>7,844,025</b>	<b>84,245,320</b>	<b>144,614,772</b>
<b>Fully depreciated Assets</b>						
Cost	0	22,790	5,012,004	363,946	587,645	<b>5,986,385</b>
Would have been depreciation	0	570	1,002,401	36,395	14,691	<b>1,054,057</b>

**NOTES TO THE FINANCIAL STATEMENTS  
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**12. Leased Property (with Revaluation)**

<b>As at 30 June 2019</b>	<b>Buildings</b>	<b>Construction</b>	<b>Services and Systems</b>	<b>Bal. as at 30.06.2019</b>
<b>Cost/Valuation</b>	<b>Kshs '000</b>	<b>Kshs '000</b>	<b>Kshs '000</b>	<b>Kshs '000</b>
Balance as at 01.07.2018	111,441	913,684	11,890	1,037,015
Re-classification	22,600	0	0	22,600
Revaluation effect	49,538	(411,423)	6,584	(355,301)
<b>Balance as at 30.06.2019</b>	<b>183,579</b>	<b>502,261</b>	<b>18,474</b>	<b>704,314</b>
<b>Depreciation:</b>				
Balance as at 01.07.2018	19,421	208,116	3,659	231,196
Charge for the year	4,752	17,670	962	23,384
Revaluation effect	(13,929)	(250,354)	(3,046)	(267,329)
<b>Balance as at 30.06.2019</b>	<b>10,244</b>	<b>(24,568)</b>	<b>1,575</b>	<b>(12,749)</b>
N.B.V as at 01.07.2018	92,020	705,568	8,231	805,819
<b>N.B.V as at 30.06.2019</b>	<b>173,335</b>	<b>526,829</b>	<b>16,899</b>	<b>717,063</b>

**Leased Property (without Revaluation)**

	<b>Buildings</b>	<b>Constructions</b>	<b>Services and Systems</b>	<b>Bal. as at 30.06.2019</b>
<b>COST / VALUATION</b>	<b>Kshs '000</b>	<b>Kshs '000</b>	<b>Kshs '000</b>	<b>Kshs '000</b>
Balance as at 01.07.2018	111,441	913,684	11,890	1,037,015
Re-classification	22,600	0	0	22,600
<b>Balance as at 30.06.2019</b>	<b>134,041</b>	<b>913,684</b>	<b>11,890</b>	<b>1,059,615</b>
<b>Depreciation:</b>				
Balance as at 01.07.2018	19,421	208,116	3,659	231,196
Charge for the year	2,840	21,167	480	24,487
<b>Balance as at 30.06.2019</b>	<b>22,261</b>	<b>229,284</b>	<b>4,139</b>	<b>255,683</b>
N.B.V as at 01.07.2018	92,019	705,568	8,231	805,819
<b>N.B.V as at 30.06.2019</b>	<b>111,780</b>	<b>684,401</b>	<b>7,751</b>	<b>803,931</b>

**Leased Property**

<b>As at 30 June 2018</b>	<b>Buildings</b>	<b>Construction</b>	<b>Services and Systems</b>	<b>Bal. as at 30.06.2018</b>
<b>Cost/Valuation</b>	<b>Kshs '000</b>	<b>Kshs '000</b>	<b>Kshs '000</b>	<b>Kshs '000</b>
Balance as at 01.07.2017	83,791	861,503	11,890	957,184
Additions	27,650	52,181	0	79,831
<b>Balance as at 30.06.2018</b>	<b>111,441</b>	<b>913,684</b>	<b>11,890</b>	<b>1,037,015</b>
<b>Depreciation:</b>				
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
<b>Balance as at 30.06.2018</b>	<b>19,421</b>	<b>208,116</b>	<b>3,659</b>	<b>231,196</b>
N.B.V as at 01.07.2017	67,241	696,076	8,975	772,292
<b>N.B.V as at 30.06.2018</b>	<b>92,020</b>	<b>705,568</b>	<b>8,231</b>	<b>805,819</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019**

<b>13.Intangible Assets (With Revaluation):</b>	<b>2018/2019</b>	<b>2017/2018</b>
<b>Cost:</b>	<b>Kshs '000</b>	<b>Kshs '000</b>
Balance as at 1 July	2,252,138	1,996,011
Additions	21,751	256,127
Revaluation Surplus/(Deficit)	(524,265)	0
<b>Balance as at 30 June</b>	<b>1,749,624</b>	<b>2,252,138</b>
<b>Amortization:</b>		
Balance as at 1 July	1,576,755	1,508,878
Charge for the year	262,568	67,877
Revaluation effects	(1,240,995)	0
<b>Balance as at 30 June</b>	<b>598,328</b>	<b>1,576,755</b>
<b>Net Book Values as at 30 June</b>	<b>1,151,296</b>	<b>675,383</b>

<b>Intangible Assets (Without Revaluation):</b>	<b>2018/2019</b>	<b>2017/2018</b>
<b>Cost:</b>	<b>Kshs '000</b>	<b>Kshs '000</b>
Balance as at 1 July	2,252,138	1,996,011
Additions	21,751	256,127
<b>Balance as at 30 June</b>	<b>2,273,889</b>	<b>2,252,138</b>
<b>Amortization:</b>		
Balance as at 1 July	1,576,755	1,508,878
Charge for the year	48,828	67,877
<b>Balance as at 30 June</b>	<b>1,625,583</b>	<b>1,576,755</b>
<b>Net Book Values as at 30 June</b>	<b>648,306</b>	<b>675,383</b>
<b>Fully amortized Assets :</b>		
Cost	894,904	894,904
Would have been Depreciation	295,320	295,320

<b>14.Finance Income:</b>	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Bank Interest Earnings	2,187,175	1,728,950
<b>TOTAL</b>	<b>2,187,175</b>	<b>1,728,950</b>

<b>15.Finance Costs:</b>	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Interest Charges- Long Term Loans	41,755	48,466
Write-Off – Other Debtors	0	2,023
Write-Off – Stock	0	35,446
Write-Off – Fixed Assets	6	0
Price Difference Loss/(Gain)	(147)	2,475
Discounts	123,501	81,218
Compensation Cargo Claims	1,194	996
<b>TOTAL</b>	<b>166,309</b>	<b>170,624</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019**

<b>16. Impairment Losses/(Gains):</b>	<b>2018/2019 Kshs '000</b>	<b>2017/2018 Kshs '000</b>
Prov. Impairment Loss Debtors	655,873	81,270
Prov. Impairment Trade (Gain)Loss on Investments	(9,744)	757,852
Prov. Impairment Loss on PPE	0	198,273
<b>TOTAL</b>	<b>646,129</b>	<b>1,037,395</b>

During the year, part of Chase bank (IR) deposits in KDIC were recovered. Consequently, impairment of Kshs 9.7 million was reversed. Trade receivables continue to be impaired as per the existing credit control policy.

<b>17. Other Gains/(Losses)</b>	<b>Note</b>	<b>2018/2019 Kshs '000</b>	<b>2017/2018 Kshs '000</b>
Gain/(Loss) on Disposal of Non-Financial Assets	17(a)	3,049	(5,490)
Inventory difference Gain/(Loss)		(365)	4,337
Realized exchange Gain/(Loss)		20,960	(43,171)
Revaluation Deficit		(147,876)	0
<b>TOTAL</b>		<b>(124,232)</b>	<b>(44,324)</b>

<b>17a. Gain/(Loss) on Disposal of Non- Financial Assets:</b>	<b>2018/2019 Kshs '000</b>	<b>2017/2018 Kshs '000</b>
Profit/(Loss) on sale of fixed assets	2,436	(13,951)
Profit on sale of surveyed stock	613	8,461
<b>TOTAL</b>	<b>3,049</b>	<b>(5,490)</b>

<b>18. Income Tax Expense/(Credit)</b>	<b>2018/2019 Kshs '000</b>	<b>2017/2018 Kshs '000</b>
<b>(a) Current taxation</b>		
Current taxation based on adjusted profit for the year at 30%	4,188,119	2,269,066
Current year deferred tax charge	(50,249)	1,157,676
<b>Tax charge for the year</b>	<b>4,137,870</b>	<b>3,426,742</b>
<b>(b) Reconciliation of tax expense/(credit) to the expected tax based on accounting profit</b>		
<b>Profit before taxation</b>	<b>13,885,505</b>	<b>10,308,477</b>
Tax at the applicable tax rate of 30%	4,165,651	3,092,543
Tax effects of expenses not deductible for tax purposes	575,326	287,921
Tax effects of income not taxable	(156,444)	(159,040)
Tax effects of excess capital allowances over depreciation/amortization	(396,414)	(952,359)
<b>Current taxation based on adjusted profit</b>	<b>4,188,119</b>	<b>2,269,066</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019**

**19. Non-Current Assets Held for sale**

Item of non-current assets held for sale as 30<sup>th</sup> June 2019 are as below indicated;

	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
ZPMC RMG 04-Rail Mounted Gantry 40T Bromma NO. 75	11,218	0
G section tractor TR 55	400	400
<b>Total</b>	<b>11,618</b>	<b>400</b>

**20. Long Term Investments**

**Fixed Deposits:**

	<b>Note</b>	<b>2018/2019</b>	<b>2017/2018</b>
		<b>Kshs '000</b>	<b>Kshs '000</b>
Housing Scheme Backup Funds- HFCK	20(a)	314,932	334,832
Fixed Deposits- HFCK		229,069	189,043
KCB Mortgage		407,333	398,457
Eco-Bank Kenya Ltd		20,345	20,010
SBM Bank Ltd.		748,108	0
<b>Subtotal</b>		<b>1,719,787</b>	<b>942,342</b>
<b>Equities:</b>	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
<b>Subtotal</b>		<b>29,100</b>	<b>29,100</b>
<b>Other Investment:</b>	20(c)		
Chase bank Deposits (KDIC)		748,108	3,031,407
Impairment of the deposits		(748,108)	(757,852)
<b>Subtotal</b>		<b>0</b>	<b>2,273,555</b>
<b>TOTAL</b>		<b>1,748,887</b>	<b>3,244,997</b>

Chase Bank Ltd was placed under receivership on 7th April 2016. Based on the Kenya Gazette notice No 6833 dated 6th July 2018, a transfer of 75% of the deposits moved to SBM (Kenya) Ltd while 25% was retained by Kenya Deposit Insurance Corporation. The transition process was completed on 17th August 2018 and SBM Kenya Ltd opened its doors on 20th August 2018 offering full banking operations. In the reporting year, SBM Kenya Ltd transferred a total of Kshs. 1,175 million including interest to the Authority. The management recovered and reversed Kshs 9.7 million from the funds under KDIC. The Authority's current and savings account at the SBM Bank have nil balances. The remaining 37.5% of the deposits at SBM bank are on fixed deposit account earning interest at 6.3% p.a with restricted access; maturing as one-third on first, second and third anniversary respectively from August 2019 to August 2021. The deposits due in August 2019 have been classified as current.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### (a) Fixed Deposits

Details and movement of the fixed deposits are shown below;

	Balance 1 July 2018	Additions	Interest	Inter Account Transfer	Balance 30 June 2019
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
<b>Fixed Deposits</b>					
Housing Scheme Backup-HFCK	334,832	15,700	7,086	(42,686)	341,932
Fixed Deposits- HFCK	189,043	42,686	13,040	(15,700)	229,069
KCB Mortgage	398,457	0	8,876	0	407,333
Eco-Bank Kenya Ltd	20,010	0	335	0	20,345
SBM Bank Ltd	0	748,108	0	0	748,108
<b>TOTAL</b>	<b>942,342</b>	<b>806,494</b>	<b>29,337</b>	<b>(58,386)</b>	<b>1,719,787</b>

- Funds invested with Housing Finance amounted to Kshs 544 million out of which Kshs 314 million is held as lien on loans advanced to staff under the HOMS and earns interest at 2% pa. The balance of Kshs 229 million is held in a fixed deposit account and earns interest of 7% pa.
- Funds invested with Kenya Commercial Bank amounting to Kshs 407 million is held as security on loans advanced to staff under HOMS. They earn interest at 2% p.a.
- 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.
- SBM Bank Ltd. funds represent 37.5% of initial investment in Chase Bank Ltd. (in receivership) and continue to earn interest at 6.30% per annum. The funds will be released in three equal instalments between August 2019 and August 2021.

### (b) Equities:

Details of the equities are shown below;

Entities	Direct shareholding	Effective shareholding	Nominal value of shares	Value of shares less impairment 2018/2019	Value of shares less impairment 2017/2018
	%	%	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
<b>TOTAL</b>				<b>29,100</b>	<b>29,100</b>

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### (c) Other Investment:

Chase Bank Ltd. was placed under receivership on April 2016 by Central Bank of Kenya. The Authority's Board made a 25% impairment provision on the deposits in December 2017. Cash deposits including interest amounting to Kshs 1,175 million previously held with Chase Bank Kenya (In Receivership) were remitted to the Authority between February 2019 and April 2019. The remaining deposit are classified between short-term and fixed deposits which continue to earn interest at 6.30% per annum and the funds will be released in three equal instalments between August 2019 and August 2021.

<b>21. Inventories</b>	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Engineering stores	355,347	368,622
Fuel, oil and lubricants	1,336	3,349
Motor vehicle spare parts	9,282	5,972
Stationery and general stores	34,789	34,702
Medicines	39,505	30,766
<b>Sub-Total</b>	<b>440,259</b>	<b>443,411</b>
Provision for Write-off	(35,446)	(35,446)
<b>Totals</b>	<b>404,813</b>	<b>407,965</b>

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 Engineering stores and Fuel, oil and lubricants however price increases led to rise in 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.

**NOTES TO THE FINANCIAL STATEMENTS  
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<b>22.Receivables &amp; Prepayments</b>		<b>2018/2019</b>	<b>2017/2018</b>
<b>Trade Receivables</b>	<b>Note</b>	<b>Kshs '000</b>	<b>Kshs '000</b>
Trade Cargo		4,343,245	2,244,957
Trade Marine		450,793	433,371
Rental		83,594	90,840
<b>Subtotals</b>	22(a)	<b>4,877,632</b>	<b>2,769,168</b>
Less; Provision For Impairment		(1,710,613)	(1,054,741)
<b>Subtotals</b>		<b>3,167,019</b>	<b>1,714,427</b>
Kenya National Shipping Line		1,507	1,507
Mot (Treasury/Dredgco)		287,231	287,231
Impairment of Other Debtors		(288,738)	(288,738)
<b>Subtotals</b>		<b>0</b>	<b>0</b>
<b>Other Receivables:</b>			
Staff Advances		14,379	17,767
Advance Imprest & Subsistence		76,531	81,459
Advance Creditors	22(b)	7,514,142	9,128,593
Deposit Others		94,762	14,762
Valuation Adjustment		318,464	213,099
Railways Debtors		522,465	65,338
Prepayments & Accrued Income	22(c)	357,044	721,481
Tax Recoverable	22(d)	2,538,069	2,088,994
VAT in		1,024,123	178,605
Others		319,218	275,832
<b>Subtotals</b>		<b>12,779,197</b>	<b>12,785,930</b>
<b>TOTAL</b>		<b>15,946,216</b>	<b>14,500,357</b>

Receivables and prepayment increased by 9.9 % to Kshs 15,946 million (Kshs 14,500 million; FY 2017/18). The increase is mainly attributed to trade receivables, advances payment of project still under construction including Kipevu Oil Terminal (KOT) for which advance instalment have been paid. Tax recoverable among others also increased.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### Receivables & Prepayments (Cont'd)

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

<b>Period</b>	<b>2018/2019 Kshs '000</b>	<b>2017/2018 Kshs '000</b>
From 0 To 90	2,305,387	1,484,128
From 91 To 120	270,576	59,591
From 121 To 150	219,206	44,468
From 151 To 180	211,743	41,333
From 181 To 365	762,884	175,377
1 to 2 Years	206,811	156,044
Over 2 years	901,025	808,227
<b>Total</b>	<b>4,877,632</b>	<b>2,769,168</b>

In compliance with the Authority's impairment policy and IFRSs, all overdue debts have been impaired. The Authority assumes that the credit risk on a financial asset increases significantly if it is more than 90 days past due. The application of IFRS 9's impairment requirements at July 2018 did not result in any significant additional impairment allowance. Debts over 2 years old have been impaired 100%.

### b. Advance Creditors:

	<b>2018/2019 Kshs '000</b>	<b>2017/2018 Kshs '000</b>
Advance Lamu Creditors	1,523,067	2,703,552
Advance Other Creditors	537,257	3,146,725
2 <sup>nd</sup> Terminal Supplier	1,852,323	3,278,316
Kipevu Oil Terminal Supplier	3,601,495	0
<b>TOTAL</b>	<b>7,514,142</b>	<b>9,128,593</b>

### c. Prepayments & Accrued Income

	<b>2018/2019 Kshs '000</b>	<b>2017/2018 Kshs '000</b>
Accrued income	36,681	333,001
Rents & rates – prepaid	26,805	27,041
Insurance – prepaid	197,040	181,174
Prepayments Others	96,517	180,265
<b>TOTAL</b>	<b>357,044</b>	<b>721,481</b>

### d. Tax Recoverable:

	<b>2018/2019 Kshs '000</b>	<b>2017/2018 Kshs '000</b>
Balance as at 01 July	2,088,994	974,369
Total Output VAT	(8,117,358)	(2,269,842)
Total Input VAT	8,566,433	3,384,467
<b>TOTAL</b>	<b>2,538,069</b>	<b>2,088,994</b>

**NOTES TO THE FINANCIAL STATEMENTS  
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**23. Tax Payable/(Paid in Advance)**

	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
<b>Balance as at 1st July</b>	<b>(873,216)</b>	<b>231,823</b>
Income tax charge for the year	4,188,042	2,269,066
Income tax paid during the year	(1,749,966)	(3,141,780)
Final Tax paid	77	(320,534)
Overpaid tax utilized	(357,606)	88,209
<b>TOTAL</b>	<b>1,207,331</b>	<b>(873,216)</b>

**24. Cash and Cash Equivalents**

	<b>Note</b>	<b>2018/2019</b>	<b>2017/2018</b>
		<b>Kshs '000</b>	<b>Kshs '000</b>
Short Term Deposits	24 (a)	25,099,818	17,988,504
Bank and Cash Balances	24 (b)	859,114	788,363
<b>TOTAL</b>		<b>25,958,932</b>	<b>18,776,867</b>

**a. Short Term Deposits:**

	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Citibank T/Bills 10.16%	23,889,540	17,442,906
Discount on Treasury Bills	834,224	545,598
SBM Bank Ltd.	376,054	0
<b>TOTAL</b>	<b>25,099,818</b>	<b>17,988,504</b>

As stated under note 20, cash deposits including interest amounting to Kshs 1,175 Million previously held with Chase Bank Kenya (In Receivership) were remitted to the Authority between February 2019 and April 2019 by SBM Bank Kenya Ltd. The remaining 37.5% are classified between short-term and fixed deposits and continue to earn interest at 6.30% per annum and the funds will be released in three equal instalments between August 2019 and August 2021. The August 2019 portion is classified as current.

**b. Bank and Cash Balances**

<b>Name of Bank</b>	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
National Bank of Kenya	75,153	4,539
Kenya Commercial Bank	(4)	(36)
Citibank N,A	623,463	672,856
Equity	142,013	89,639
Stanbic Bank	1,382	1,493
Petty Cash	3,708	3,224
Cash in Transit	30	(52)
Collections	422	500
Safaricom Mpesa	12,946	16,200
<b>TOTAL</b>	<b>859,114</b>	<b>788,363</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019**

**Cash and Cash Equivalents (Cont'd)**

Details of cash and cash equivalents are as follows;

<b>Financial Institution</b>	<b>Bank Account Nos.</b>	<b>Curr.</b>	<b>2018/2019 Kshs '000</b>	<b>2017/2018 Kshs '000</b>
<b>i) Current account</b>				
National Bank of Kenya	1003057307400	Kshs	67,421	2,949
	2003057307400	USD	6,332	190
	1003000909000	Kshs	1,400	1,400
	1107638127	Kshs	0	(1)
Kenya Commercial Bank	1146962908	USD	0	(33)
	6690361829	BIF	(6)	(1)
	6690361837	USD	2	(1)
	300046401	Kshs	426,066	208,214
Citibank N,A	300046428	USD	197,398	464,642
	1560267794795	Kshs	132,003	43,812
Equity	1560261552619	USD	10,009	45,826
	4002200349395	RWF	0	1
Stanbic bank	9030008175933	USD	1,311	1,778
	9030005614383	UGX	71	(285)
<b>Sub-total</b>			<b>842,007</b>	<b>768,491</b>
<b>ii) Others;</b>				
Cash in Transit		Kshs	30	(52)
Collections		Kshs	422	500
Petty Cash		Kshs	3,708	3,224
Safaricom Mpesa		Kshs	12,947	16,200
<b>Sub-Total</b>			<b>17,107</b>	<b>19,872</b>
<b>iii) Fixed Deposit Account</b>				
Treasury Bills		Kshs	23,889,540	17,442,906
Discount on Treasury Bills		Kshs	834,224	545,598
<b>Sub-Total</b>			<b>24,723,764</b>	<b>17,988,504</b>
<b>iv) SBM Bank Ltd.</b>				
	0223305760001/ 0043305760011/ 0043305760014/ 0043305760015/	Kshs	376,054	0
<b>Grand-Total</b>		Kshs	<b>25,958,932</b>	<b>18,776,867</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### 25. Movement in Revaluation Reserves

	2018/2019 Kshs '000	2017/2018 Kshs '000
Opening Balance	39,881,910	43,296,547
<b>Transfers to General Reserves:</b>		
Effects on Revaluation	71,764,121	
Assets Disposals	0	(7,166)
<b>Depreciation as a result of Revaluation:</b>		
Buildings	0	(159,295)
Plant & Equipment	0	(3,248,176)
<b>Closing Balance</b>	<b>111,646,031</b>	<b>39,881,910</b>

Effects on Revaluation resulted from revaluation of the Authority's non-current assets conducted by M/s Sec & M Ltd.

### 26. Movement in General Reserves

	2018/2019 Kshs '000	2017/2018 Kshs '000
Opening Balance	78,426,542	73,813,608
<b>Adjustments for:</b>		
Profit After Tax	9,747,635	6,881,737
Revaluation Effects	3,475,871	3,414,637
Pension DB Valuation	0	(4,747,674)
Unrealized Foreign Exchange Loss	(59,320)	(168,800)
Dividends Paid	0	(1,000,087)
Other valuation loss	(1,855)	0
JICA Loan Valuation Effects	(968,300)	233,121
<b>Closing Balance</b>	<b>90,620,573</b>	<b>78,426,542</b>

### 27. Grants

Grants represent funds provided by donors, in this case TMEA, either directly or via a sponsor for the purposes of financing specific capital projects of the Authority. They are in the form of assets. 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 Expansion of gate 18 and replacement of asbestos roofing and development of Cruise Ship terminal among others.

	1/7/2018 Kshs '000	Received 2018/19 Kshs '000	Cumulative to 30/6/2019 Kshs '000
Trade Mark East Africa	2,529,233	274,048	2,803,281
SGR	2,514,819	0	2,514,819
<b>TOTAL</b>	<b>5,044,052</b>	<b>274,048</b>	<b>5,318,100</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### 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:

	<b>1/7/2018</b>	<b>Received</b>	<b>Expenditure</b>	<b>Cumulative</b>
	<b>Kshs '000</b>	<b>2018/19</b>	<b>2018/19</b>	<b>to 30/6/2019</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>	<b>Kshs '000</b>	<b>Kshs '000</b>
Infrastructure Kisumu Port	50,000	0	0	50,000
Lamu Port Development	16,162,039	11,179,000	(4,882)	27,336,157
<b>TOTAL</b>	<b>16,212,039</b>	<b>11,179,000</b>	<b>(4,882)</b>	<b>27,386,157</b>

During the year Kenya Ports Authority received Kshs 11.179 Billion from Ministry of Transport & Infrastructure, Housing, Urban Development and Public Works for the Lamu Port development project.

#### Lamu Port Project Statement of Financial Position As at 30 June 2019

	<b>Notes</b>	<b>Kshs '000</b>	<b>Kshs '000</b>
Non-Current Assets	a	31,753,589	
<b>Current Assets(Advance Payments):</b>			
China Communication Construction Co.		973,379	32,726,968
			<b>32,726,968</b>
<b>Financed By:</b>			
Government funds		26,720,252	
Other funds	b	627,021	
KPA funds*		2,949,509	30,296,782
Current Liabilities	c		2,430,186
			<b>32,726,968</b>

\*The Authority contributed Kshs 2.9 Billion towards the Lamu port project.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019**

<b>a. Non-current Assets</b>	<b>Kshs '000</b>
Boundary wall – National youth service	20,000
Police station & staff quarters (Vaghjiyani Enterprises- up to certificate 14)	584,097
<b>Works in progress</b>	
<b>1. Civil works</b>	
1 <sup>st</sup> Three Berths – China Communications (Forex Included)	28,343,838
<b>2. Consultancy</b>	
1 <sup>st</sup> Three berths – Yooshin Engineering (Forex Included)	780,367
<b>3. PAPs</b>	
Kenya Forestry Services	64,939
Lamu Municipal council – Approval fee	35,000
National Land Commission	1,925,348
	<b>31,753,589</b>
<b>b. Other funds</b>	<b>Kshs '000</b>
Interest on Lamu funds	195,647
Funds for Dongo Kundu utilized on PAPs	431,374
	<b>627,021</b>
<b>c. Current liabilities</b>	<b>Kshs '000</b>
China Communications (Retention up to certificate 15)	
Kshs portion	472,750
USD portion 19,395,655.85@100.92	1,957,410
Yooshin Engineering	26
	<b>2,430,186</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### Financial Risk Management Policies (Cont'd)

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

As at the end of the reporting period, collateral including bank guarantees and deposits worth at least Kshs 801 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 2,902 million (FY 2017/18 Kshs 2,256 million) is provided for and includes at least Kshs 590 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### Financial Risk Management Policies (Cont'd.)

The table below analyses the Authority's financial liabilities as at 30<sup>th</sup> June 2019 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 2019

Payables	Less than	Between	Between	Over	Total
	1 month	1 - 3	4 - 6	6 months	
	Kshs '000	months	months	Kshs '000	Kshs '000
General Trade	1,673,850	86,895	13,041	113,557	1,887,343
General Foreign	16,994	1,964	4,218	25,107	48,283
Payroll	356,788	970	49,399	70,274	477,431
Borrowings-Current portion	0	0	410,067	410,067	820,134
<b>Total</b>	<b>2,047,632</b>	<b>89,829</b>	<b>476,725</b>	<b>619,005</b>	<b>3,233,199</b>

#### As at 30 June 2018

Payables	Less than	Between	Between	Over	Total
	1 month	1 - 3	4 - 6	6 months	
	Kshs '000	months	months	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
<b>Total</b>	<b>574,511</b>	<b>45,583</b>	<b>444,975</b>	<b>642,927</b>	<b>1,707,996</b>

### (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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### 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 2018/19		Assets 30-Jun 2018/19		Liabilities 30-Jun 2017/18		Assets 30-Jun 2017/18	
	Kshs '000	USD '000	Kshs '000	USD '000	Kshs '000	USD '000	Kshs '000	USD '000
	<b>Assets</b>							
Bank			215,652	2,109			452,282	4,471
Receivables			8,068,710	78,929			6,055,391	59,260
<b>Liabilities</b>								
Payables	2,879,831	28,231			2,622,554	25,428		
<b>Total</b>	<b>2,879,831</b>	<b>28,231</b>	<b>8,284,362</b>	<b>81,038</b>	<b>2,622,554</b>	<b>25,428</b>	<b>6,507,673</b>	<b>63,731</b>

Currency (JPY)	Liabilities 30-Jun 2018/19		Assets 30-Jun 2018/19	
	Kshs '000	JPY '000	Kshs '000	JPY '000
<b>Assets</b>				
Receivable			2,363,324	2,640,388
<b>Liabilities</b>				
Borrowings-Current	820,134	863,026		
Payables	423,119	457,327		
<b>Total</b>	<b>1,243,253</b>	<b>1,320,353</b>	<b>2,363,324</b>	<b>2,640,388</b>

Currency (JPY)	Liabilities 30-Jun 2017/18		Assets 30-Jun 2017/18	
	Kshs '000	JPY '000	Kshs '000	JPY '000
<b>Assets</b>				
Receivable			5,705,787	6,248,950
<b>Liabilities</b>				
Borrowings-Current	791,109	863,026		
Payables				
<b>Total</b>	<b>791,109</b>	<b>863,026</b>	<b>5,705,787</b>	<b>6,248,950</b>

### 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### Financial Risk Management Policies (Cont'd.)

	Exchange rate	Change in currency rate	Effect on Profit before tax Kshs '000
<b>2019</b>			
USD	102.27	10%	540,049
JPY	0.9252	10%	122,130
<b>2018</b>			
USD	101.15	10%	393,415
JPY	0.9167	10%	78,078

#### b) Interest Rate Risk

The Authority is exposed to interest rate risk as it borrows and invests funds. Borrowings are mainly in fixed rates thus minimizing the exposure to the interest rate risk. The interest earning financial assets that the Authority holds include short term deposits in government securities whose rates of return are predetermined. The Authority regularly monitors the interest rate movements to ensure that the optimum interest rates are obtained.

#### Interest rate sensitivity Analysis

As at 30 June 2019, an increase/decrease of 1 % change with all other variables held constant would have resulted in a decrease /increase in profit for the year of Kshs 243 million (2017-2018; Kshs 167 million), mainly as a result of higher/lower interest charges on short term deposits.

#### (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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### Financial Risk Management Policies (Cont'd.)

As at 30 June 2019, the Authority held the following financial instruments measured at fair value.

<b>At 30 June 2019</b>	<b>Level 1 Kshs '000</b>	<b>Level 3 Kshs '000</b>	<b>Total Kshs '000</b>
<b>Financial Assets</b>			
Treasury Bills+	23,723,764	0	23,723,764
SBM Bank Ltd*	0	1,124,162	1,124,162
<b>Total</b>	<b>23,723,764</b>	<b>1,124,162</b>	<b>24,847,926</b>
<b>Financial Liability</b>			
Borrowings - Jica 1	23,373,808	0	23,373,808
Jica 2	10,176,159	0	10,176,159
<b>Total</b>	<b>33,549,967</b>	<b>0</b>	<b>33,549,967</b>

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

There were no transfers between levels during the year.

+ All the Treasury Bills are maturing within the year

\* Chase Bank Ltd was placed under receivership on 7th April 2016. Based on the Kenya Gazette notice No 6833 dated 6th July, 2018, a transfer of 75% of the deposits moved to SBM (Kenya) Ltd while 25% was retained by Kenya Deposit Insurance Corporation. The transition process was completed on 17th August 2018 and SBM Kenya Ltd opened its doors on 20th August 2018 offering full banking operations. In the reporting year, SBM Kenya Ltd transferred a total of Kshs. 1,175 million including interest to the Authority. The Authority's current and savings account at the Bank have nil balances. The remaining 37.5% of the deposits are on fixed deposit account earning interest at 6.3% p.a with restricted access; maturing as one-third on first, second and third anniversary respectively from August 2019.

#### **(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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### (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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### 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.

<b>Description</b>	<b>2018/2019 Kshs `000</b>	<b>2017/2018 Kshs `000</b>
Non-Current Liabilities	66,133,546	52,755,020
Current Liabilities	13,774,713	7,792,252
<b>Total Debt</b>	<b>79,908,259</b>	<b>60,547,272</b>
<b>Total Capital and reserves</b>	<b>207,584,704</b>	<b>123,332,504</b>
<b>Net debt to Equity</b>	<b>39%</b>	<b>49%</b>

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

<b>Description</b>	<b>2018/2019 Kshs `000</b>	<b>2017/2018 Kshs `000</b>
Total Debt	79,908,259	60,547,272
Total Assets	287,492,963	183,899,776
<b>Debt to Total Asset ratio</b>	<b>28%</b>	<b>33%</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### 43. Contingent Liabilities

Claims lodged and cases filed against the Authority in respect of third party claims are estimated at Kshs 18.6 Billion and are as quantified in no particular order in the table below;

NO.	PARTICULARS	NATURE OF CLAIM	PROGRESS
1	Msa High Court Admiralty & 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	MSA HCC No. 71 of 2018 Masai Investment Limited -vs-KPA	Compensation claim for alleged loss of business previously situated along the Kipevu road construction site.	Hearing of the matter is ongoing
3	MSA HCC No. 410 of 2002 A M Bahajj & Co Ltd -vs- KPA	Claim for loss of goods within the port in 2002	Hearing of the matter is ongoing
4	MSA ELRC 118 of 2015; Bilton Etobo Okhonjo & Samson K.Nyeliley & 33 Others - vs- Kenya Ports Authority. The Claimant is seeking orders of specific performance against his employer, the Respondent.	Claiming for being payment for promotion to grade HM4 for the period they were trainee.	Hearing on going
5	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 from eviction from the staff quarters.	Mediation ongoing – slated for 6 <sup>th</sup> September 2019
6	NRB HCC No. 128 of 2004 Kobil Petroleum Ltd vs- KPA	Claim for shore handling charges for bulk crude oil imported by the Plaintiff. Similar claim lodged against the Authority in HCC No. 105 of 2003.	Matter is currently being negotiated upon to enter an out of court settlement

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019**

**Contingent Liabilities (Cont'd)**

<b>NO.</b>	<b>PARTICULARS</b>	<b>NATURE OF CLAIM</b>	<b>PROGRESS</b>
7	JR. Application No. 5 of 2016; Container Freight Stations Association of Kenya -VS- KRA and KPA (Interested party). Instituted on 22nd January 2016	Judicial review application to quash the regulations gazetted by KRA to regulate the operation of transit sheds and to suspend nomination of cargo to the CFS.	Matter to be mentioned on 16 <sup>th</sup> September 2019
8	JR. Application. No. 6 of 2015; Republic - VS- KPA <i>Ex Parte</i> Portside Freight Terminals Ltd. Instituted on 25th January 2016	Judicial review application to quash KPA's letter of 21 <sup>st</sup> January 2016 suspending nomination of containers to the <i>Ex -Parte</i> Application.	Matter to be mentioned on 16 <sup>th</sup> September and decision on whether it should be consolidated and heard by the same court together with JR No. 5 of 2016
9	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 is ongoing it is scheduled for a mention on the 25th September 2019
10	MSA HCC PET. 159 OF 2018 – William Odhiambo & 2 Others vs AG & 4 Others. Civil Appeal No. 166 of 2019	Constitutional petition against the Authority's operations at the ICD Nairobi seeking orders to protect the socioeconomic rights of the petitioners and the people of Mombasa County. The petitioners seek orders to vest the mandate of management and operational functions in Mombasa County. The Appeal against the ruling of the High court. Seeks to challenge the jurisdiction of the Court to hear the Petition	Matter ongoing. Awaiting empanelment of a bench of uneven number of Judges being not less than three by the Chief Justice. Appeal has been heard and awaits ruling on 26th September 2019
11	Msa HCC Petition No. 28 of 2017 John Grossert & Company Advocates -vs- KPA & Another	Claim against property No. MSA/XLVII/73 measuring approximately 3.2 Acres	Hearing of the suit is ongoing.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019**

**Contingent Liabilities (Cont'd)**

<b>NO.</b>	<b>PARTICULARS</b>	<b>NATURE OF CLAIM</b>	<b>PROGRESS</b>
12	MSA HCC PET. 159 OF 2018 – William Odhiambo & 2 Others vs AG & 4 Others. Civil Appeal No. 166 of 2019	Constitutional petition against the Authority's operations at the ICD Nairobi seeking orders to protect the socioeconomic rights of the petitioners and the people of Mombasa County. The petitioners seek orders to vest the mandate of management and operational functions in Mombasa County. The Appeal against the ruling of the High court. Seeks to challenge the jurisdiction of the Court to hear the Petition	Matter ongoing. Awaiting empanelment of a bench of uneven number of Judges being not less than three by the Chief Justice. Appeal has been heard and awaits ruling on 26th September 2019
13	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.
14	Msa ELC No. 163 of 2018 Memphis Ltd -vs- KPA & 2 Others	Claim against KPA relating to the Authority's parcel of land MN/VI/4785 lease to the plaintiff. The parcel of land is affected by the ongoing expansion of Kipevu road project.	Matter referred to arbitration.
15	NBI HCC Petition No. 22 of 2012 Mohamed Ali Baadi Vs. Kenya Ports Authority & 10 others	Petitioners are seeking to prevent the Kenyan Government, KPA and other respondents from undertaking the LAPPSET project because they allege the same will have devastating consequences on the social, economic, political and environmental systems in Lamu.	Ruling was delivered on 30 <sup>th</sup> April 2018 and an Appeal lodged before the Court of Appeal.
16	Msa ELC No. 85 of 2018 Export Milling (EPZ) Ltd Vs H Young & Others	Land claim regarding parcel No. MN/VI/4785.	Hearing of the suit is ongoing.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019**

**Contingent Liabilities (Cont'd)**

<b>NO.</b>	<b>PARTICULARS</b>	<b>NATURE OF CLAIM</b>	<b>PROGRESS</b>
17	MSA ELRC No. 40 of 2015 John Wang'ombe Kinyeki & 80 others Vs. KPA	89 former Gantry operators filed claim owing to disciplinary action that they allege did not follow due process.	Hearing of the Matter is ongoing.
18	Mombasa High Court Petition No. 38 of 2015. Abeid Mwanganzori & 2 others Vs. KPA & 2 Others	The Petitioners have filed a Petition seeking inter alia a permanent injunction restraining KPA from varying out further construction works for expansion of the Mombasa Port without review, adequate and full compensation of the petitioners	Matter is undergoing arbitration.
19	Pepe Limited v KRC, KRA, KPA, MOTIHU & 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 22 <sup>nd</sup> October 2018
20	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	The matter is scheduled for hearing afresh after the bench was reconstituted following the investigations on one of the judges who previously heard the matter.
21	Msa. ELC Petition No. 22 of 2019 Getrude Mukoya Mwende & 5 Others -vs- KPAN & Others	The Petition challenges the sand harvesting works undertaken by the Authority for construction of Mombasa Port Development Project Phase II and the relocation of Kipevu Oil Terminal.	Hearing of the Petition is Ongoing.

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

### **44. Reporting Currency**

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

### **45. Subsequent Events**

There 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 20<sup>th</sup> January 1978.

**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 during the period was Kshs 55,448 million made up of Kshs. 52,759 million and Kshs. 2,689 million representing operating and non-operating incomes respectively.

**Operating Revenue**

Operating revenue of Kshs. 52,759 million had a favorable variance compared to budget due to ICD collections mainly on storage and re-marshalling. The performance was also above last year's figure of Kshs. 42,738 million by Kshs. 10,021 million or 23%. Containerized cargo throughput growth also marginally contributed to the increase.

**Other Income**

Revenue earned from miscellaneous services had a favorable variance compared to budget due to increased bank interest earnings, which brought in Kshs.2,187 million compared to Kshs 1,729 million in the previous year. Delays in implementation of some projects which had been earmarked for the period under review due to procurement procedures has contributed to the growth in cash reserves deposited with banks to earn interest.

**Total Expenditure**

Total Expenditure was more than the revised budget resulting into an overrun of Kshs (1,923) million.

**Cost of Employment**

Overall expenditure on cost of employment was below the revised budget by Kshs 364 million resulting into a favorable variance of 1.79%. The approved supplementary estimates were adequate to cover the over-spent votes under staff emoluments.

**Operating expenses**

Overall expenditure on this vote was above the allocated budget for the period under review, by Kshs 68 million. The main highlights of this vote were however on Repairs and annual contracts where Kshs 1,529 million was spent. This was the highest expenditure recorded under this vote followed by fuel at Kshs 1,148 million.

## **ADDITIONAL DISCLOSURES FOR THE YEAR ENDED 30 JUNE 2019**

### **Notes to the Statement of Comparison of Budget and Actual Amounts (Cont'd)**

#### **Depreciation, Utilities, Office Administration, Public Relations & Personnel Costs and Other Gains/Losses**

Depreciation expense shot up drastically to close with Kshs 10,610 million which is above the budget with adverse variance of Kshs 2,176 million or 25.8%. This was because of the revaluation exercise undertaken which returned a gain on most of the assets revalued thereby increasing the depreciation expense by almost Kshs 3 billion.

Overall expenditure on Utilities, Office Administration, Public Relations & Personnel Costs was above the approved budget recording a variance of Kshs 43 million or 1.6%. It was however above last year's figure of 3,450 million by Kshs. 594 million. The main highlights on this vote where huge expenditures were recorded was on Computer and other licenses, Training, Publicity/advertisement and Insurance premiums. These specific votes each recorded an expenditure of more than Kshs 400 million, license vote topping the list with an expenditure of Kshs 666 million. Management will be monitoring these areas with a view of controlling overruns.

Expenditure under Other Gains/Losses was unfavorable against the budget. The variance is mainly brought about by a revaluation deficit and impairment loss.

#### **Profit before Tax**

A net operating profit of Kshs 13,886 million was realized during the period. The profit recorded was above the budgeted profit of Kshs 7,392 million by Kshs 6,494 million.

## ADDITIONAL DISCLOSURES FOR THE YEAR ENDED 30 JUNE 2019

### 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)
	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.	<b>Not Resolved:</b> Policy is being applied.
	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.	<b>Not Resolved:</b> Management is following up on the request to write off Dredgco debt.
	Pension Scheme Expenses  Retirement Benefit Asset	The National Treasury's letter Ref: EPN 171/07 VOL. Q (94) of 16th June 2011 directed changes to its circular No. 18/2010 of 24th November 2010 under variation of clause 10 to allow that scheme expenses related to in house administration may be met by the employer (in this case KPA).  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.	<b>Not Resolved:</b> The Board of Trustees advertised a tender for consultancy on development of optimal Scheme administration structure, which was awarded to M/s PKF Kenya Limited. The contract has been signed and data collection exercise started on 24th April 2019. The scheme reimbursed the Authority Kshs 14.122M in April 2019.  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 2019**

**Progress on Follow-up of Auditor recommendations (Cont'd.)**

<b>Audit Report</b>	<b>Issue/Observations From the auditor</b>	<b>Management Comments</b>	<b>Status: (Resolved/ Not Resolved)</b>
FY 2016/17	Alienated Properties	The Authority has filed several cases. In the month of January 2018 the National Land Commission informed the Authority it has published a notice listing parcels illegally alienated from KPA and gave the registered parcel owners 90 days to vacate the parcel.	<b>Not Resolved:</b> The matter is pending in court of law. And in the month of January 2018 the NLC published a notice listing parcels illegally alienated from KPA and gave the registered parcel owners 90 days to vacate the parcel.
	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.	<b>Not Resolved:</b> Out of 34 listed parcels of land the Authority has title for 19 parcels, 2 are KRC plots and for the balance legal processes to acquire titles are underway. The Authority has undertaken official searches for plots without titles and filed affidavits for issuance of provisional titles.
	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.	<b>Not Resolved:</b> NLC is handling the case following a presidential directive that land around the Kibarani area in the hands of private parties should be repossessed. The National Land Commission through letter dated 17th December, 2015 directed the firm to stop the reclamation.

**ADDITIONAL DISCLOSURES  
FOR THE YEAR ENDED 30 JUNE 2019**

**Progress on Follow-up of Auditor recommendations (Cont'd.)**

Audit Report	Issue/Observations From the auditor	Management Comments	Status: (Resolved/ Not Resolved)
	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.	<b>Not Resolved:</b> The Authority approved the connecting road but on condition that it would be available for public use and not for 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.	<b>Resolved:</b> The transition process was completed on August 2018 and SBM Kenya Limited opened its doors on 20th August 2018 offering full banking operations. The SBM has transferred a total of Kshs.1,175,061,018 to the Authority's Bank account at Citibank as follows; <ul style="list-style-type: none"> <li>•27<sup>th</sup> February 2019 - Kshs 1,122,161,722</li> <li>•11<sup>th</sup> April 2019 - Kshs 52,899,296</li> </ul> The Authority's current and Savings accounts at SBM have nil balances. The remaining 37.5% of the deposits (Kshs 1,136,777,602) are on a Fixed deposit account earning interest at 6.3% p.a with restricted access; maturing as one-third on first, second and third anniversaries respectively.

**ADDITIONAL DISCLOSURES  
FOR THE YEAR ENDED 30 JUNE 2019**

**Progress on Follow-up of Auditor recommendations (Cont'd.)**

<b>Audit Report</b>	<b>Issue/Observations From the auditor</b>	<b>Management Comments</b>	<b>Status: (Resolved/ Not Resolved)</b>
FY 2017/18	Inaccuracies in financial statements	The errors were corrected, and the statement and schedule availed to the auditor vide our letter Ref. FA/3/2/02 of 27th February 2019. Attached is the amended statement and schedule	RESOLVED
	Other income	Section 61 (1) of the KPA Act states "the Board and the Managing Director may delegate to any person any of the powers vested in them under this Act and may grant to any person powers of attorney", hence Management was not in breach of the law as pertaining to this notice and was properly guided in making it for the interest of the Authority	
	Incentive scheme	Expenses amounting to Kshs 29,607,000 disclosed in GL 600791 refers to payment of meritorious awards to staff for recognition of their efforts in the Port decongestion exercise. The approvals were availed during the audit and are attached. Kshs 97, 398,000, relates to the payment of fixed allowance which was paid to staff in Container operations and Container Terminal Engineering departments.	RESOLVED
	Overtime allowances	Overtime was appropriately paid as provided for in the HR manual and CBA.	RESOLVED
	Staff allowances	Pilotage allowance was approved in 1993 by both the Executive Management and Board Human Resource committees in line with section 10(b) of the Kenya Ports Authority Act Cap 391 of 1978 which empowers the Board to approve minor alterations in salaries, wages or other terms and condition of service of employee of the Authority. These allowances cannot be referred to as major allowances since they are not paid to staff across the entire Authority.	RESOLVED

**ADDITIONAL DISCLOSURES  
FOR THE YEAR ENDED 30 JUNE 2019  
Progress on Follow-up of Auditor recommendations (Cont'd.)**

<b>Audit Report</b>	<b>Issue/Observations From the auditor</b>	<b>Management Comments</b>	<b>Status: (Resolved/ Not Resolved)</b>
FY 2017/18	Marine spares	Mantrac Kenya have a service contract with KPA to service the Authority's tugboats, mooring boats and other marine floating crafts. The replaced cracked cylinder heads were delivered at the Marine Engineering dockyard.	RESOLVED
	Repairs of port infrastructure	The Government gave a directive in 2016 for all State Corporations and Agencies to secure all their properties by fencing and erecting a sign board clearly stating the ownership of the properties. The board of KPA approved the fencing of all KPA properties. The contractors are being pursued to either complete the works or institute recovery of the monies paid.	NOT RESOLVED
	Water supply services	This matter is under investigation the EACC and the DCI. All materials and documentations, invoices and delivery notes relating to water supply were taken to the EACC and they are still in their custody.	NOT RESOLVED
	Licenses and computers	The integrated security system maintenance of systems spares is procured on demand basis (as need arises) as direct issues. They are received from the stores directly for accounting purposes and are immediately expensed. These spares don't form part of the Authority's inventory.	RESOLVED
	Assets disclosed in estimated values	The Authority wrote to KRC requesting for a formal list with values of all the assets handed over under the KRC-SGR project. A reminder was sent to KRC to provide the transfer values and ownership documents.	NOT RESOLVED

**ADDITIONAL DISCLOSURES  
FOR THE YEAR ENDED 30 JUNE 2019**

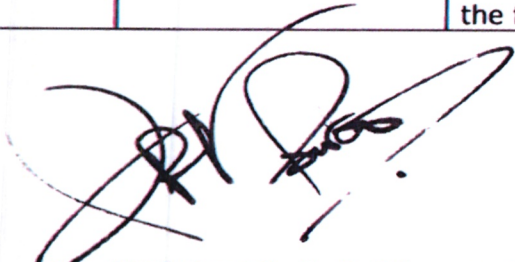
**Progress on Follow-up of Auditor recommendations (Cont'd.)**

<b>Audit Report</b>	<b>Issue/Observations From the auditor</b>	<b>Management Comments</b>	<b>Status: (Resolved/ Not Resolved)</b>
FY 2017/18	Work in progress	Lamu port project land was included in the PPE schedule at the value of Kshs 1,925,347,734.70. The amount was compensation to PAPs done by the NLC. Total compensation for PAPs through the NLC was Kshs 1,925,347,734.70 paid out as Kshs 1,319,586,674.55 in February 2015, Kshs 576,857,791.65 in July 2015 and Kshs 28,903,268.50 in May 2017.	RESOLVED
	Intangible Assets	The marine operations module in KWATOS is operational. The module is being utilized for sending billing information. Hard copies of the bills information is maintained for record and verification purposes. The maintenance costs are thus valid & duly incurred.	NOT RESOLVED
	Long outstanding Receivables	The debts have been outstanding due to disputed bills and some are subject to ongoing court of law proceedings. The Authority has constituted a debt recovery committee to aggressively pursue the debts. Nonetheless, to ensure recovery it continues to do business with them which is normal practice.	NOT RESOLVED
	Advance Lamu creditors	The variance is a result of certificate no. 12 for work completed as at 31st March 2018 which was submitted on 10th July 2018 after the closure of the year 2017/2018, hence the same was accounted for in the financial year 2018/2019.	RESOLVED

**ADDITIONAL DISCLOSURES  
FOR THE YEAR ENDED 30 JUNE 2019**


**Progress on Follow-up of Auditor recommendations (Cont'd.)**

Audit Report	Issue/Observations From the auditor	Management Comments	Status: (Resolved/ Not Resolved)
FY 2017/18	Long-term Investments - Equities	Kshs 29, 1000, 000 relates to equity held with Consolidated Bank Ltd. whose share certificate is available. KNSL and KFS Ltd. are state corporations which have been facing operational challenges and have been loss making in most of their operational years and facing significant financial difficulty.	NOT RESOLVED
	Other Investments	The Authority made appropriate disclosures in the Annual report and financial statements for FY 2017/18 under the Management discussions, critical accounting estimates and in the financial notes.	RESOLVED



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

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Dr. Arch. Daniel Ogwoka Manduku  
**MANAGING DIRECTOR**

**ADDITIONAL DISCLOSURES  
FOR THE YEAR ENDED 30 JUNE 2019**

**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	Total Transfer FY 2018/19 Kshs '000
					Statement of Financial Performance	
State Department for Transport	Lamu Port Project	3.07.2018	2,329,000	11,179,000	Non-Current Liabilities	11,179,000
		14.08.2018	8,850,000			
<b>Total</b>			<b>11,179,000</b>	<b>11,179,000</b>		<b>11,179,000</b>