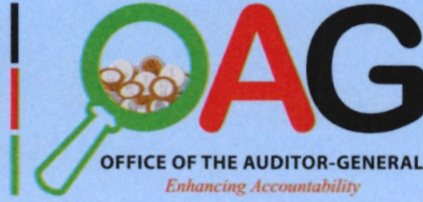


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STATE DEPARTMENT FOR SHIPPING AND MARITIME AFFAIRS

FOR THE YEAR ENDED 30 JUNE, 2025

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STATE DEPARTMENT FOR SHIPPING AND MARITIME AFFAIRS

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

30TH JUNE 2025

Transitional International Public Sector Accounting Standards (IPSAS) Financial Statements

State Department for Shipping and Maritime Affairs
Annual Report and Financial Statements for the year ended June 30, 2025.

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1. Acronyms and Definition of Key Terms

CS	Cabinet Secretary
PS	Principal Secretary
CBK	Central Bank of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
OCOB	Office of the Controller of Budget
OAG	Office of the Auditor General
PFM	Public Finance Management
PPE	Property Plant & Equipment
PSASB	Public Sector Accounting Standards Board
TNT	The National Treasury
SDSMA	State Department of Shipping and Maritime Affairs
KMA	Kenya Maritime Authority (KMA)
BMA	Bandari Maritime Authority
KNSL	Kenya National Shipping Line
KLVMCT	Kenya Lake Victoria Maritime Communication and Transport Project

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2. Key Department Information and Management

(a) Background information

The Economic Commission for Africa Sub-Regional Office for Eastern Africa 19th Session of the Intergovernmental Committee of Experts meeting held on 2nd -5th March, 2015, in Antananarivo, Madagascar on “Harnessing the Blue Economy for the development of Eastern Africa”, the meeting urged States in Africa to mainstream the Blue Economy into their national and regional development plans, where applicable. In the meeting, States were encouraged to establish the necessary institutions and build the relevant capacities to better harness the potential in the Blue Economy Sector.

Given the above, the government of Kenya through Executive Order No. 1/2016 on “**Organization of the Government of the Republic of Kenya**” established a fully-fledged State Department for Shipping and Maritime within the then Ministry of Transport, Infrastructure, Housing and Urban Development. Vide Executive Order No.1 of 2018 (revised), it was later renamed State Department for Shipping and Maritime in the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works.

Currently, through Executive Order No. 1 of 2024, the department was further renamed the State Department for Shipping and Maritime Affairs within the Ministry of Mining, Blue Economy and Maritime Affairs.

1.1 Vision

“A leader in the promotion of Maritime and Shipping Affairs”

1.2 Mission

“To promote and develop Maritime and Shipping Industry in Kenya through policy formulation and implementation, coordination and fostering regional and global cooperation”.

1.3 Mandates of the State Department for Shipping and Maritime Affairs

1. Promotion of Maritime and Shipping Industry;
2. Maritime Transport Management;
3. Ship Registration;
4. Marine Cargo Insurance;
5. Human Resources, Development, Management and Research in Support of Kenya's Shipping Industry;
6. Establishment of Effective Admiralty Jurisdiction;
7. Development of a Central Data and Information Centre;
8. Co-ordinating Maritime Spatial Planning and Integrated Coastal Zone Management;
9. Protection and Regulation of Marine Ecosystems;
10. Develop national capacity for Kenya’s maritime sector;
11. Promote and facilitate placement of Kenyans in the global maritime labour market;
12. Protection of the Marine Resources in EEZ;
13. Monitoring and Advising on Usage of Kenya's Exclusive Economic Zone;
14. Ocean Governance and marine management; and
15. Government Clearing and Forwarding Services

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1.4 Core Values and Principles

The State Department's operations are guided by the following core values and principles:

- Good governance - Integrity, Transparency, Accountability, Public Participation
- Non-discrimination – Equity, Inclusiveness, Valuing Diversity, Social Justice
- Professionalism – Promoting collective responsibility and team spirit
- Patriotism – Promotion and Protection of National Interest
- Sustainable Development - Nurturing innovation and creativity

1.5 Semi-Autonomous Government Agencies (SAGAs)

The SDSMA has three SAGAs, namely:

1. **Kenya Maritime Authority (KMA)**, this is a body corporate established under the Kenya Maritime Authority Act, 2006 and the regulator of the maritime sector. The overall responsibility of KMA is to regulate, coordinate and oversee maritime affairs

2. **Bandari Maritime Academy (BMA)**, this was established in November 2018 vide a Legal Notice No. 233 of 2018 to provide Maritime Education and Training (MET) for a sustainable Blue Economy.

3. **Kenya National Shipping Line Ltd (KNSL)**; The Kenya National Shipping Line Ltd was established in 1987 as a maritime service provider through the Articles of Association & Shareholders' Agreement under the Companies Act (Cap 486). Its structure and operations are guided by the State Corporations Act and the Merchant Shipping Act 2009. The company is mandated to undertake the following services: Shipping business, On-land Logistics business, Crew and Manning, Terminal Operations, Ship Management, and Oil and Gas transportation.

(b) Key Management

The day-to-day management of the State Department is under the following key organs:

- Cabinet Secretary
- Chief Administrative Secretary
- Principal Secretary
- Secretary of Administration

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(c) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2024 and who had direct fiduciary responsibility were:

NO.	DESIGNATION	NAME
1	Cabinet Secretary	Hon. Hassan Ali Joho EGH
2	Principal Secretary	Mr. Aden A. Millah
3	Senior Deputy Secretary	Mr. Samuel Mwati
4	Director Planning	Mr. Gideon Mwangi
5	Deputy Director, HRM	Mr. Godfrey Kiriago
6	Senior Principal Finance Officer	Mr. Godfrey Wamalwa
7	Senior Deputy Accountant General	Mr. Tom Oboke Ndhine
8	Senior Assistant Internal Auditor General	Mrs. Agnes Kamau
9	Director Technical	Mr. Julius Segera
10	Assistant Director, Supply Chain Management	Mr. Wilfred Guantai
11	Principal State Council	Ms. Muthoni Kanyugo
12	Deputy Director, ICT	Mr. Silvester Liech

(d) Fiduciary Oversight Arrangements

The Accounting Officer is supported by various appointed Committees to execute the annual budget as per the prevailing policy, law, regulations and circulars issued from time to time. The Committees comprise; the Budget Implementation Committee, the Ministerial Human Resource Management Advisory Committee (MHRAC), The Service Delivery Committee, the Audit Committee, the Resolution of Public Complaints Committee, the National Values and Principles of Government Committee, the Road Safety Committee, Presidential Directives Committee, Procurement Committee and Project Management Committee.

The members of the Committees are professional/technical staff drawn from various departmental Units. They possess a wide range of professional expertise and experience to make objective decisions in advising the Accounting and Authorized Officers appropriately. Upon appointment, the members of respective Committees are inducted in matters related to their mandate. The term of each Committee expires at the end of the financial year. In the subsequent financial year, new committees shall be appointed.

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(e) SDSMA Headquarters

P.O. Box 30799-00100
NSSF Annex Building, 8th floor
Bishop Road
NAIROBI, KENYA
Entity Contacts
Telephone: (254) 020 2729200
E-mail: ps@shippingmaritime.go.ke
Website: www.shippingmaritime.go.ke

(f) SDSMA Bankers (all banks)

Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
NAIROBI, KENYA

(g) Independent Auditors

Auditor - General
Office of The Auditor General
Anniversary Towers, University Way
P.O. Box 30084
GPO 00100
NAIROBI, KENYA

(h) Principal Legal Adviser

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

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3. Profile of Cabinet Secretary

H.E. Hon. Hassan Ali Joho has dedicated his life to public service and community development.

Born on February 26, 1973, in Kisauni, Mombasa, he hails from a close-knit, hardworking family that instilled in him the values of integrity and diligence.

He holds a Bachelor of Business Administration from Kampala University and a Bachelor of Commerce from Greta University. He is also a holder of various diplomas in Business, Shipping, Logistics, and ICT.

He has also completed the executive programs at the Harvard Kennedy School of Government, including the "Public Leadership Credential" in July 2022, "Leadership for the 21st Century" in January 2024, and "Negotiation Strategies: Building Agreement Across Borders" in March 2024, underscoring his dedication to continuous personal and professional growth.

From 2013 to 2022, H.E. Hon. Joho served as the first Governor of Mombasa County, where his leadership was instrumental in transforming the region into a key economic hub. His administration focused on inclusive governance, infrastructure development, and improving healthcare and education. His contributions have significantly enhanced the quality of life in the Coast region and established Mombasa as a vital part of Kenya's economic landscape.

H.E. Hon. Joho served as the Member of Parliament – Kisauni Constituency and Chairman of the Transport and Library Committee. He also served as the Deputy Party Leader and National



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Organizing secretary of the Orange Democratic Movement (ODM). In 2012 he served as the Assistant Minister for Transport.

His influence extends globally as the Co - Founder of the International Steering Committee of the Strong Cities Network, a global network of cities advocating for peace and security.

Recognized for his service, he was awarded the Elder of the Golden Heart (EGH) in 2018.

In August 2024, he was appointed as the Cabinet Secretary for Mining, Blue Economy, and Maritime Affairs. This role positions him to drive sustainable economic growth and strengthen Kenya's global presence in these strategic sectors.

H.E. Hon. Joho is also a successful entrepreneur, with business interests in shipping, logistics, environmental management, and manufacturing, contributing to the economic growth of the Coast region. His philanthropic efforts through the Hassan Joho Foundation have led to the establishment of educational institutions and social programs that benefit the community.

An avid traveler and sports enthusiast, H.E. Hon. Joho's multifaceted life reflects his dedication to Kenya's development and his enduring impact on society.

*State Department for Shipping and Maritime Affairs
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4. Profiles of Accounting Officer and Key Management.



Mr. Aden Abdi Millah is the current Principal Secretary State Department of Shipping and Maritime Affairs, Ministry of Mining, Blue Economy and Maritime Affairs. He is the immediate Deputy Director and Head of Department of motor vehicle registration at the National Transport and Safety Authority (NTSA). He is a results-oriented professional with over twenty-eight years of experience in the public and private sector.

Prior to being Deputy Director, Mr. Millah was the NTSA Regional Manager for Central Rift based in Nakuru, then Coast region based in Mombasa and later Nairobi regional office. His previous roles also include serving as the Engineer in-charge at Schlumberger in Scotland, Engineer at First Energy Corporation in Pennsylvania, USA, and a technician at Kenya Power and Lightning Company Ltd, Central Rift Region between 1996 to 2000.

Mr. Millah holds a Diploma in Electrical Engineering from Jomo Kenyatta University of Agriculture and Technology, a Bachelor of Electrical Engineering degree from the University of Minnesota Institute of Technology Twin Cities, and a Master of Business Administration (MBA) Degree in Human Resources Management from Mount Kenya University. His professional affiliations include membership to the Kenya Association for Public Administration and Management.

State Department for Shipping and Maritime Affairs

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1. A brief on the key leadership structure

S/NO	NAME	DESIGNATION	QUALIFICATIONS
1	Mr. Aden Abdi Millah	Principal Secretary	Master of Business Administration (MBA)
2	Mr. Samuel Mwati	Senior Deputy Secretary	Master of Arts, Public Policy and Administration
3	Mr. Julius Segeera	Director, Shipping & Maritime	Master of Science in Maritime Affairs
4	Mr. Gideon Wathuo Mwangi	Director, Planning	Master of Science in Information Systems
5	Mr. Godfrey Kiriago	Deputy Director, HRM	Master of Business Administration (Human Resource Management)
6	CPA Tom Oboke Ndhine	Senior Deputy Accountant General	Master of Science in Finance, Bachelor of Commerce Degree (Finance), CPA (K) & CPS (K).
7	Mr. Godfrey Wamalwa	Senior Principal Finance Officer	Bachelor of Commerce Degree (Accounting)
8	Mrs. Agnes Kamau	Senior Assistant Internal Auditor General	Bachelor of Commerce Degree and CPA (K)
9	Mr. Wilfred Guantai	Assistant Director, Supply Chain Management	Master of Business Administration (Strategic Management)
10	Mr. Silvester Liech	Deputy Director, ICT	Master of Science in Information Systems
11	Ms. Muthoni Kanyugo	Principal State Counsel	Master of Laws (LLM), Maritime & Degree in Law (LLB)

5 Statement by the Cabinet Secretary

This Annual Reports and Financial Statements for the Financial Year 2024/2025 of the State Department for Shipping and Maritime Affairs (SDSMA) gives an outline of the progress in the continued fulfilment of its mission towards creating a robust blue economy nation.

The Blue Economy Industry provides impetus in national transformation and realization of the Vision 2030 and the Bottom-up Economic Transformation Agenda (BETA). This sector plays an important role as a catalyst for the growth of other sectors in the Kenyan economy. Some of the functions of the State Department for Maritime Affairs include promotion of the Maritime and Shipping Industry; Maritime Transport Management; Human Resource Development, Management and Research in Support of Kenya's Shipping Industry, and Establishment of Effective Admiralty Jurisdiction.

The State Department has three Semi-Autonomous Government Agencies (SAGAs), which are expected to contribute towards the achievement of its mandate. The SAGAs are; i) Kenya Maritime Authority, under the State Corporations Act, Cap. 446 and Kenya Maritime Authority Act, 2006 ii) Kenya National Shipping Line, under the Companies Act, and iii) Bandari Maritime Academy, formed through the Legal Notice No. 233 of 2018.

In a bid to continue creating an enabling environment in the Blue Economy Sector, the SDSMA continues on the legislative reform process in developing and implementing forward-looking policies and relevant regulations to foster a competitive and efficient Shipping and Maritime Industry. The SDSMA seeks to improve its environment for spurring economic growth and investments in the Shipping and Maritime Industry.

Dynamism locally and internationally pose several changes which this department handles by embracing invention of technology and participation in the International Maritime Forums, such as the International Maritime Organizations Meetings to be updated on current trends and secure Kenyan interests abroad. Further, it continues improving its internal capacity by enhancing staff expertise and coming up with robust policies while at the same time implementing legal, institutional, and regulatory reforms geared towards productivity, streamlining operations, and responding to customers' ever-changing needs.



Hon. Hassan Ali Joho EGH
CABINET SECRETARY
Ministry of Mining, Blue Economy and Maritime Affairs

Statement by the Accounting Officer

2.0 Summary of the Key Achievements

During the period under review, the SDSMA accomplished the following:

1 Training and Recruitment of Seafarers: Oversaw the training of 3,216 and recruitment of 2,023 Seafarers. This is in line with the Bottom-up Economic Transformation Agenda (BETA) of job creation and increase foreign remittances and Trained 796 youths on other Maritime courses such as Port Operations

2. Marine Pollution Project: The objective of this project is to develop a framework for prevention of pollution in the marine environment by ships operational or accidental causes by developing policies, regulations and domesticating International Maritime Organization's (IMO's) Conventions on Prevention and Control of Marine Pollution (MARPOL). The project will entail development of a framework for full implementation of the International Maritime Organization's (IMO's) Conventions on Prevention and Control of Marine Pollution (MARPOL) and a compensation regime for oil pollution damage from ships in marine environmental governance, seven comprehensive regulations aligned with IMO conventions on marine pollution were successfully developed.

3. Maritime Safety and Security Project: This project aims at enhancing safety of life at sea, protect maritime trade routes, and preserve the marine environment by strengthening the maritime law enforcement, and building institutional capacity. It entails installing and maintaining aids to navigation, upgrading vessel monitoring, enhancing port and coastal security, improving search and rescue and pollution response capabilities. This ensures compliance with the International Maritime Conventions, thence promoting safe and environmentally sustainable maritime transport. It achieved full-year targets with 12 safety regulations developed and 4 ISPS Code audits conducted, strengthening compliance with international maritime safety standards.

4. Regional Conference on Green Shipping: Hosted the Regional Conference on implementation of the 2023 IMO Greenhouse Gas strategy and the green transition of shipping in Africa on 6th and 7th February 2025 in Mombasa, Kenya. The conference underscored the urgent need to decarbonize the Maritime Sector in line with global climate goals and the IMO's revised strategy, emphasizing the adoption of low-to-zero emission fuels, the importance of addressing related safety risks, and the need for specialized training for seafarers to ensure a safe and effective green transition.

5. Maritime Spatial Plan: The Plan aims at managing and allocate the use of maritime space and resources in a sustainable and efficient manner through mapping and protecting resources within the marine ecosystem for socioeconomic development. It will involve development of a comprehensive and integrated framework that will identify and map existing and potential uses of the maritime space,

State Department for Shipping and Maritime Affairs

Annual Report and Financial Statements for the year ended June 30, 2025.

including economic, social, and environmental activities. The project will also focus on protection and regulation of marine ecosystems and resources in the Exclusive Economic Zone (EEZ). During the FY 2024/25, the State Department prepared a Project Concept Note, which was approved by the National Treasury and recommended a Pre-feasibility study be undertaken.

6. Lake Turkana Maritime Transport and Investment Project (LTMTIP): The main objective of this Project for Lake Turkana is to develop an integrated maritime spatial framework and provide the necessary infrastructure and systems to ensure the safe, efficient, and sustainable use, governance, and economic development of the Lake Turkana's maritime resources. The SDSMA initiated its development by preparing the Project Concept Note, which was approved and the authority given to undertake a pre-feasibility study by the National Treasury.

7. Maritime Sector Data Project: The project aims at developing a comprehensive framework for the collection, collation, and analysis of maritime data, which is essential for informed decision-making by both public and private sector stakeholders. By filling this data gap, the project will enable accurate measurement of the maritime sector's economic impact, providing policymakers and regulators with the data needed to formulate effective strategies and policies that can foster growth and development in the sector. During the FY 2024/25, the State Department initiated the development of the Maritime Sector Data Project by preparing the Project Concept Note, which will be approved by the Accounting Officer.

8. MOUs on Recognition of Certificates and Maritime Cooperation: During the financial year under review, the Department pursued various international partnerships to enhance maritime and shipping cooperation. The Department prepared draft agreements with the United Republic of Tanzania, Kuwait, Jordan, and Singapore. The draft undertaking with Tanzania, under the STCW Convention, has progressed to the review stage after Tanzania submitted a counter-MOU. Similarly, Kenya and Kuwait have exchanged MoUs, and comments from Kuwait are being reviewed by relevant Kenyan agencies. The MoU with Jordan has significantly advanced, with both parties agreeing on the draft contents awaiting finalization at a later date. The Singapore MoU has also been submitted to their authorities after undergoing the necessary local clearances. Additionally, the Department engaged in collaboration with global maritime institutions and other countries. A technical meeting was held with the World Maritime University to implement an existing MoU, which is due for renewal by July 2025. The draft MoUs were also developed and submitted for clearance with the Philippines, South Africa, and Argentina. Clearances from the National Treasury have been

State Department for Shipping and Maritime Affairs

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received for these MoUs, indicating continued progress in enhancing Kenya's maritime diplomacy and cooperation.

9. National Maritime Transport Policy, Maritime Education and Training Policy Maritime Investment Policy and Investment Regime: During the FY 2024/25, the Department finalized the Maritime Education and Training (MET) Policy aimed at producing a globally competitive maritime workforce through quality training, research, and capacity building and the National Maritime Transport (NMT) Policy, which seeks to ensure safe, efficient, reliable, and sustainable maritime transport, safety, and competitiveness. It also advanced the Maritime Investment Policy, designed to attract and retain local and foreign investments through a conducive business environment under public-private partnerships, and the Maritime Investment Regime, which establishes transparent and sustainable legal and regulatory frameworks for maritime investments. The MET and NMT policies underwent stakeholders' validation, and Cabinet Memoranda preparation, which was submitted to the Cabinet Secretary for the Ministry of Mining, Blue Economy, and Maritime Affairs on 3rd October 2024. In line with the issues raised by the Cabinet Secretary for the National Treasury and Economic Planning, the updated documents were resubmitted on 30th June 2025 and now await the Treasury Cabinet Secretary's signature before progressing to the Cabinet approval. In addition, the Department developed a draft National Maritime Security Strategy intended to safeguard Kenya's maritime sovereignty, protect infrastructure and the marine environment, prevent maritime threats, strengthen cooperation, and promote research and innovation and, in collaboration with the International Maritime Organization (IMO), plans to hold a workshop in August 2025 to finalize and submit it for adoption by the Sub-Committee on Maritime Security.

10. International meetings on Maritime Attended: During the year, 2024/25, the Department, together with the National Assembly participated in two International Maritime Organization (IMO) Council meetings: the 132nd Session held from 8th to 12th July 2024 and the 133rd Session held from 18th to 22nd November 2024. The 132nd Session focused on advancing strategic reforms, improving resource management, and promoting inclusivity within the IMO. It achieved key outcomes such as approving hybrid meetings technologies, enhancing multilingualism, and progressing maritime safety and environmental protection initiatives. Kenya, through our Principal Secretary, presented a paper on national efforts in addressing the Gulf of Aden crisis. The session also reviewed updates on reducing GHG emissions, technical cooperation, and maritime safety in conflict zones, welcomed Kyrgyzstan as the 176th member, adopted a Code of Conduct to prevent harassment, and laid the groundwork for subsequent reforms. The 133rd Session addressed procedural enhancements, including updated Rules of Procedure to allow live streaming and hybrid participation, as well as

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multilingualism improvements. It endorsed advancements in the Global Integrated Shipping Information System (GISIS) and the Member State Audit Scheme, refined risk management policies, and emphasized budgetary discipline. The meeting also approved measures for marine environment protection, such as reducing underwater noise and NOx emissions, reviewed progress from maritime training institutions, and strengthened cooperation with the International Association of Marine Aids to Navigation and Lighthouse Authorities (IALA). Both meetings were intended to shape global maritime governance, enhance operational efficiency, strengthen environmental and safety measures, and promote Kenya's active role in international maritime policy-making.

11. Construction of the Survival Training and Certification Centre Project: This project aims at constructing a training facility to provide skills and survival techniques against drowning, temperature extremes both in and out of water, dehydration, and longer effects of starvation in the event of distress at sea. During FY 2024/25, the Maritime Survival Training and Certification Centre Project under Bandari Maritime Academy (BMA) at 10% work done. Initially, the project had no budgetary allocation, but it received Kshs. 370 million in the Supplementary II, which was disbursed in May 2025. The following was the achievement of the project as at 30th June 2025; Construction of the site office, contractor's accommodation, powerhouse and relocation of the generator, development of septic tank and soak pit, 11kV HT cable delivery and installation, clearance of the site and site fencing. The approvals were obtained from Mombasa County Government, NCA, and NEMA. Geotechnical survey was also undertaken. The estimated project cost is Kshs. 2.425 billion.



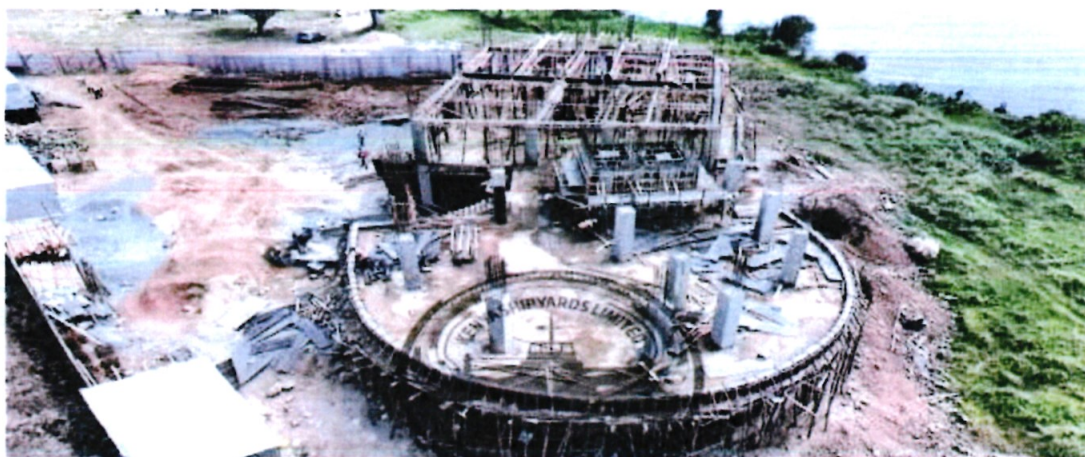
The Survival Training and Certification Centre Project site

12. Construction Kenya Lake Victoria Maritime Communication and Transport (KLVMCT) Project. This project will address the maritime transportation and navigation safety through provision of safe, efficient, cheap and environmentally friendly transport and communication system within the three East African countries sharing Lake Victoria but being implemented by through Kenya Maritime Authority.

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Annual Report and Financial Statements for the year ended June 30, 2025.

It will address maritime safety and security of the lake users through construction of a Maritime Rescue Coordination Centre in Kisumu and four (4) Search and Rescue Centers (SARs) in the riparian Counties of Migori, Homabay, Siaya and Busia. The Project is currently at its initial stages at 17% level of work done. Specifically, the following has been undertaken: i) Project Concept Note was developed and approved, ii) Prefeasibility study undertaken and approved, iii) Feasibility study is currently underway, iv) The building works for MRCC in Kisumu is ongoing. The contract was awarded to Kenya Shipyards Limited while Consultancy services was awarded to APRIM Consultants.



The foundation works of a Maritime Rescue Coordination Centre in Kisumu

13. Development of the Kenya Maritime Data Bank: The project aims at developing a web-based solution that will provide a platform for information collection, storage, retrieval, and analysis of maritime data. It will enable sharing and availing of information related to the maritime sector to assist in policy interventions, research, and training. The project is being implemented by the State Department through Kenya Maritime Authority, KMA. The Department oversaw the implementation of the KMA Databank development project, which is its initial stage, currently at 10% work done. Procured a consultancy for system analysis and design, and conducted business analysis. Both business and system analysis and design are ongoing.

14. Kenya National Shipping Line Cargo Capacity Programme KNSL Project Mashariki: The project aims at enhancing the cargo carrying capacity. It will ensure sustainable revenue generation, provision of employment and seetime required during the training of seafarers. The Projects is undertaken by KNSL. However, currently, lack of funds has affected the implementation of the project. In the FY 2024/25, KNSL developed a Business Plan (Project Mashariki) as regional feeder service to be undertaken using internal resources. KNSL will therefore undertake the following services in the short and medium term; Transshipment, Liner shipping, Ship Agency, Clearing & Forwarding (Logistics) and Crew & manning. The project was approved by the Board of Directors on 29th January 2025 but Kenya National Shipping Line (KNSL) has not yet commenced implementation and plans to undertake the project in the FY 2025/26.

14. Recruitment of technical staff: In FY 2024/25, the SDSMA undertook a comprehensive review of its organizational structure and staffing levels to ensure alignment with its mandate, operational requirements, and strategic priorities. This process involved evaluating existing roles, identifying

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capacity gaps, and redefining functions to enhance efficiency, eliminate redundancies, and strengthen coordination across directorates and units. The revised organizational structure, developed from this review, was submitted to the Public Service Commission (PSC) and subsequently approved. The approved structure provides for a total of 107 positions, comprising 17 technical staff and 90 support staff, offering a framework for optimal personnel deployment and improved service delivery. During the year, the State Department further strengthened its technical capacity by recruiting eight additional technical officers.

2.1 Emerging Issues

The following are the emerging issues in the Maritime Sector:

- **Digital Transformation and Maritime Cybersecurity:** With increased automation, implementation of the Maritime Single Window, and integration of port systems, Kenya's maritime sector is entering a digital era. However, these raises emerging concerns around cybersecurity vulnerabilities, data protection, and the need for robust digital infrastructure and skilled personnel., infrastructure, work processes and procedures to match with the current trends.
- **Green Shipping and Climate Change Compliance:** The push for decarbonisation and green shipping practices, including adoption of cleaner fuels, emission regulations, and energy-efficient vessels, is gaining momentum globally. Kenya must align with new IMO environmental targets, creating demand for green maritime technologies, training, and financing.
- **Maritime Autonomous Surface Ships (MASS) and Future Skills:** The global trend toward autonomous vessels is set to impact shipping operations. Kenya must begin preparing for the regulatory, safety, and workforce implications of MASS, including training seafarers in new digital and automation competencies.
- **Blue Economy Investment Trends:** The blue economy is emerging as a new frontier for economic growth. Investment interest is rising in areas such as marine biotechnology, sustainable fisheries, eco-tourism, and coastal infrastructure, requiring Kenya to create a robust investment policy and regulatory framework
- **Dissolution/ Divesture of KNSL:** In FY 2024/25, the Cabinet recommended that KNSL be dissolved/ divested. The decision will affect KNSL as the country's national carrier and her participation in the shipping business, which is estimated at a freight value of Kshs. 600b annually. Without significant local participation, this money is repatriated out of the country through the foreign shipping lines currently dominating the shipping business. This will weaken Kenya's participation in the International Maritime Trade, which may lead to increase in the cost of exports and imports due to increase in reliance on foreign operators. It would also limit opportunities for Kenyan seafarers by reducing access to sea time, mandatory training, and job placements, thereby constraining skills development, employability, and career advancement in the maritime industry.

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2.2 Implementation Challenges

The SDSMA continue to face the following challenges in discharging its mandate:

- a. Inadequate budgetary allocation:** The maritime sector has significant potential that remains largely unexploited due to inadequate funding. Despite having 15 mandates, the State Department struggles to implement them fully. This financial shortfall also affects its key programs and projects, such as the Vijana Baharia Programme, National Maritime Spatial Plan, Lake Turkana Maritime Transport and Investment Project, and Maritime Sector Data Project, among others, making it difficult to support and actualize the sector initiatives.
- b. Low awareness and understanding of the maritime industry:** The Maritime holds a lot of potential, which can transform the socio-economic development of the country. However, the opportunities in the sector are not known and it is important that awareness campaigns be conducted to ensure the public and the potential investors are aware of the opportunities and the dynamics in the sector.
- c. Inadequate technical staff:** Currently, the Department has inadequate technical staff who are not able to undertake the mandate as provided. It is therefore important to recruit the requisite staff to enable discharge of the technical mandate as expected.
- d. Inadequate training facilities, trainers and equipment:** The demand for seafarers is rising both locally and globally, presenting an opportunity for youth employment. Kenya currently has 10,500 registered seafarers, while the global industry faces a growing shortage, with a projected deficit of 89,510 officers and 450,000 ratings by 2026. By 2050, an additional 875,000 seafarers will be needed. To remain competitive, investment in training facilities, trainers, and equipment is crucial to meet international certification standards (STCW '78). Leading maritime nations have heavily invested in the maritime education, prompting the Kenyan government to designate Bandari Maritime Academy as a Regional Centre of Excellence. The State Department has developed a Master Plan to enhance the academy's capacity and ensure Kenya supplies skilled professionals to the global market.
- e. Lack of mandatory shipboard training opportunities:** For the seafarers to be able to complete training, they must be provided with experiential training or seetime so that they have experience in working on board ships. This is provided by international shipping lines and can also be provided by provision of training vessels. However, due to lack of a national carrier and inadequate funding it has become a challenge to provide seetime to our youth being trained as seafarers;
- f. Inadequate Curricular:** Maritime Training Institutions are required to provide training for maritime transport that covers seagoing and shore-based personnel to serve and manage the shipping and ports and the wide Blue Economy. The institutions also provide courses that lead to proficiency and competency certification in programmes under the International Maritime Organization (IMO) Conventions. Lack of ready curricular for some courses that are urgently required by seafarers is a major challenge in development of competent human resource capacity in the sector. This has resulted to Kenyans seeking for training opportunities in other global and regional countries including United Republic of Tanzania among others;
- g. Lack of HELB funding for trainees:** The maritime courses are very expensive and adequate funding need to be provided in order to make them affordable to the youths. Since BMA is

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not under the Ministry of Education, the institution is not provided with funding under TIVETA. Provision of funding through KMA under MSA, 2009 has not been successful.

- h. Low participation of the Country's Carrier in the Shipping Industry:** Globally, according to UNCTAD, over 80% of cargo is transported by sea, while in Kenya, more than 90% of cargo is seaborne. This reality has driven many countries to position themselves to either directly participate in the shipping business or to influence it significantly through favourable legal and fiscal regimes that attract private players and provide strategic national benefits. Kenya, however, does not currently have an active national carrier, which has severely limited the country's participation in the multi-billion-dollar global shipping industry. As a result, international shipping lines dominate the market, leading to an estimated annual capital flight of about Kshs. 600 billion, which is repatriated abroad through freight payments.

In FY 2024/25, a proposal emerged to dissolve or divest from the Kenya National Shipping Line (KNSL), the country's designated national carrier. If implemented, this move would worsen the situation by further reducing the State Department's direct role in shipping, weakening Kenya's presence in international maritime trade, and increasing dependence on foreign operators. It would also undermine the country's ability to influence global shipping affairs and limit opportunities for Kenyan seafarers by reducing access to sea time, mandatory training, and job placements thereby constraining skills development, employability, and career.

- i. Inadequate Office Space, Operational Equipment, and Vehicles:** The Department lacks adequate office space, operational equipment such as computers, printers and intercom and vehicles, which affects service delivery.
- j. Operational Status of the Directorate of Government Clearing Services:** The overall operational status of the Directorate of Government Clearing Services remains a critical concern due to a combination of persistent challenges that continue to hamper the department's performance and efficiency. GCA's ability to carry out its operations effectively must be enhanced. Lack of adequate staff, online visibility, and inadequate accounting infrastructure should be addressed.

2.3 Recommendations

In view of the above challenges, the following are recommended:

- 1. Adequate Budgetary Allocation:** The Government should provide adequate budgetary allocation in order to implement the identified policies, programmes and projects. It is suggested that the MSA, 2009 need to be reviewed and amended in order to provide funding for the Maritime sector including, policy, programmes and projects development and implementation, Regulation of the Maritime Sector and Capacity development specifically supporting BMA.
- 2. Policies and Legal Framework:** The maritime sector requires policies, laws and regulations in order to ensure its development. Development and implementation of the required policy, legal and regulatory framework in the maritime sector is required in order to provide a conducive environment and increase investment in this sector. The sector being in its nascent stage and holding a huge potential of transforming the social-economic development of the country requires this framework in order to attract investment. Provision of funds is thus

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required to develop and implement these policies, laws and regulations. Finalization of Kenya Maritime Amendment Bill, 2024, Merchant and Shipping (Amendment) Bill, 2024 and Bandari Maritime Academy Bill, 2024 and other regulations to domesticate IMO Conventions will go a long way to support the sector.

3. **Restructuring KNSL:** Fast-track and expedite restructuring of KNSL as the national sea carrier. This will enable the Department to play its role as and undertake the following maritime services as provided in its mandate; Shipping business, On-land Logistics business, Crew and manning, Terminal operations, Ship management; and Oil and Gas transportation.
4. **Finalize and implement the Maritime Investment Policy and Incentive Regime:** Develop incentives to investors for the development of shipping industry e.g. Ship building, repair and shipbreaking, Containers building, repair and cleaning.
5. **Partnerships and Collaboration with International Institutions:** Enhance collaboration and partnerships with international maritime administrations as well as their national shipping lines to access placement of youths and on-board training/ job opportunities.
6. **Developing Bandari Maritime Academy Masterplan:** Globally, the leading maritime nations have invested heavily in maritime education and training in order to build human resource capacity for their maritime sector and the world at large due to the significance of the sector in social-economic development. Most of these countries have institutions that specializes in provision of maritime education and training. The Government realised this and identified Bandari Maritime Academy as a Regional Centre of Excellence in provision of maritime skills for the sustainable development of the Blue Economy. In line with this the State Department through BMA developed a Master Plan to transform the academy into a centre of excellence or countries that are Implement the Bandari Maritime Academy Masterplan to enhance the capacity of the country to supply the required professionals in the global market
7. **Awareness Creation:** Promote shipping and maritime industry through sensitization within and outside the Government, to increase awareness on latent potentials in the maritime industry.
8. **Adequate Technical Staff:** Currently the Department has inadequate technical staff to undertake the mandate effectively. It is therefore important to recruit the Technical Staff so that they can discharge the technical mandate as expected;
9. **Human Resource Capacity Development:** Adequate funds need to be provided in order to develop adequate human resource capacity in the sector. This will lead to job creation both locally and abroad.
10. **Provision of Sea time Training;** The State Department need to develop several strategies in order to provide the much-needed sea time training for the seafarers being trained. The strategies include among others restructuring KNSL as a national carrier, developing MOUs with other countries and International Shipping Companies with a view of increasing seetime opportunities.

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11. **Development of Curriculum:** Development of adequate curriculum to provide training for both seagoing and shore-based personnel. This will ensure seafarers are trained locally and they save foreign exchange since they pay for being trained by foreign country
12. **KNSL Business Plan Implementation:** KNSL need to fast-track the implementation of its Business Plan, The Project Mashariki a KNSL Feeder Service that seeks to establish a leading feeder service provider in East Africa, enhancing regional connectivity, driving economic growth, and creating employment opportunities, particularly in the business lines that do not require funding from GoK and can be supported through internal revenue.
13. **Operationalize the Directorate of Government Clearing Services:** The Department should develop a plan to enhance its activities with the goal of increasing Appropriations-In-Aid (AIA) collection and facilitating the timely clearance of government-interest cargo. Immediate action should be taken to identify potential clients involved in the import or export of goods, and engage them accordingly.

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6. Statement of Performance Against Predetermined Objectives for FY2024/25

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the accounting officer presents a statement of performance against predetermined objectives of the MDA.

The key strategic objectives as per the *State Department for Shipping and Maritime Affairs* strategic plan for FY 2023- FY 2027 are to:

The Strategic Objectives serve as a roadmap to achieve the State Departments' Mission and Vision. The State Department will focus on the following

- a) To enhance Safety and Security at the Water Bodies
- b) To formulate and review the Legislative and Regulatory Framework
- c) To participate in the Maritime Trade and Investment
- d) To map and Protect Resources within the Marine Ecosystem for sustainable use.
- e) To develop and operationalize the Maritime Research and Innovation Centre
- f) To monitor the usage of Kenya's EEZ
- g) To protect Marine Ecosystems and secure resources in the EEZ
- h) To ensure sustainable use of Marine Ecosystem for Socioeconomic development
- i) To collaborate/cooperate with relevant Stakeholders to ensure expeditious resolution of Maritime Disputes
- j) To develop requisite infrastructure for the development of the Maritime Sector
- k) To Enhance Research, Development and Management of Information in the Maritime Sector
- l) To Develop and Manage National Capacity for Kenya's Maritime Sector
- m) To Enhance Human Resource Capacity and Global Employment in the Maritime Sector.
- n) To develop and strengthen Maritime Education and Training Capacity
- o) To Develop and Enhance Policy, Legal, Regulatory and Institutional Capacity

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Table xx1: Programme performance

Program	Strategic Objective	Outcome	Output	Output indicator	Achievement for the FY			Cumulative Achievement by end of FY			Remarks
					Target	Actual	Variance	Target	Actual	Variance	
<i>Shipping and Maritime affairs</i>	To enhance Safety and Security at the Water Bodies	Safe and Sustainable Nation's Maritime Domain and Competitiveness	MRCC established	Area covered in expanded maritime communication network coverage	60%	40%	20%	60%	40%	20%	Target not achieved. The Coverage will improve once the implementation of the Kenya Lake Victoria Maritime Communication and Transport Project is completed
	To develop requisite infrastructure for development of the Maritime Sector	Develop maritime training infrastructure	Survival centre constructed	% completion	25%	5%	20%	25%	5%	20%	Target not achieved The project received zero allocation in the Supplementary I Budget of the Financial Year 2024/2025.

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Program	Strategic Objective	Outcome	Output	Output indicator	Achievement for the FY			Cumulative Achievement by end of FY			Remarks
					Target	Actual	Variance	Target	Actual	Variance	
											<p>During Supplementary Budget II, the Academy was allocated Kshs. 370 million. This allocation is expected to accelerate implementation of the project in FY 2025/26.</p> <p>However, to ensure implementation of the project is undertaken as planned, the allocated funds is grossly inadequate and the project requires Kshs. 740million to undertake the required development</p>

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Program	Strategic Objective	Outcome	Output	Output indicator	Achievement for the FY			Cumulative Achievement by end of FY			Remarks
					Target	Actual	Variance	Target	Actual	Variance	
											and to achieve key milestones that had previously not been met.
	To participate in the Maritime Trade and Investment	Maritime Transport operators developed	Regulations for Maritime Transport operators	No. of regulations for Maritime Transport operators developed	1	1	1	1	1	1	Target achieved. Merchant Shipping (Maritime Transport Operators) Regulations gazetted in May 2024
	To Enhance Research, Development and Management of Information on Maritime Sector	Enhancing research, development, and management of information on the maritime sector	Operationalized System	% of System Completion	10	10	0	10	10	0	Target achieved The project is ongoing. Review of Deliverables by the Project Implementation Team will be finalized by end of Q1 of 2025/2026

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Program	Strategic Objective	Outcome	Output	Output indicator	Achievement for the FY			Cumulative Achievement by end of FY			Remarks
					Target	Actual	Variance	Target	Actual	Variance	
	To ensure sustainable use of Marine Ecosystem for Socioeconomic development	Sustainable use of Marine Ecosystem	Developed Regulations	No. of Regulations Developed	2	7	5	2	7	5	<p>Target achieved.</p> <p>Seven regulations developed as follows: -</p> <ul style="list-style-type: none"> a) Merchant Shipping (Prevention of Pollution by Oil from Ships) Regulations, 2025; b) Merchant Shipping (Control of Pollution by Noxious Liquid Substances) Regulations, 2025;

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Program	Strategic Objective	Outcome	Output	Output indicator	Achievement for the FY		Cumulative Achievement by end of FY			Remarks
					Target	Actual	Target	Actual	Variance	
										c) Merchant Shipping (Prevention of Pollution by Harmful Substances Carried by Sea in Packaged Form in Bulk) Regulations, 2025;
										d) Merchant Shipping (Prevention by Pollution by Sewage) Regulations, 2025;
										e) Merchant Shipping (Prevention of Pollution by Garbage) Regulations, 2025;
										f) Merchant Shipping

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Program	Strategic Objective	Outcome	Output	Output indicator	Achievement for the FY			Cumulative Achievement by end of FY			Remarks
					Target	Actual	Variance	Target	Actual	Variance	
											(Prevention of Air Pollution by Ships) Regulations, 2025; and g) Merchant Shipping (Waste Reception Facilities) Regulations, 2025.
	To Develop & Manage National Capacity for Kenya's Maritime Sector	Increased National Maritime Capacity capability	Shipping vessels chartered	No. of Shipping vessels chartered	4	0	4	4	0	(4)	Target not achieved This was caused by non-implementation of the restructuring of KNSL, due to a litigation case between KNSL and MSC and lack of budget allocation.

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Program	Strategic Objective	Outcome	Output	Output indicator	Achievement for the FY			Cumulative Achievement by end of FY			Remarks
					Target	Actual	Variance	Target	Actual	Variance	
											However, Kenya National Shipping Line developed a Business Plan for Project Mashariki which is a regional feeder service and is set to start implementation from 1 st July 2025
	To Enhance Research, Development and Management of Information on Maritime Sector	Management of Information on Maritime Sector	Maritime Data Bank developed	% Completion	100%	10%	(90%)	100%	10%	(90%)	Target Achieved. The project is ongoing. Review of Deliverables by the Project Implementation Team will be finalized by end of Q1 of 2025/2026.
	To Enhance Human Resource	Increased capacity building and	Seafarers Recruited	No. of Seafarers Placed on-	5,000	4012	(988)	5,000	4012	(988)	Target achieved not achieved. The

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Program	Strategic Objective	Outcome	Output	Output indicator	Achievement for the FY			Cumulative Achievement by end of FY			Remarks
					Target	Actual	Variance	Target	Actual	Variance	
	Capacity and Global Employment in the Maritime Sector	Job Creation in the Maritime Sector		board Foreign Ships							decline in number of youths trained for mandatory courses can be attributed to the inability of our trainees to access HELB funding. Most of them are forced to drop out before completing their studies
	To develop and strengthen Maritime Education and Training Capacity	Seafarers Trained	Seafarers Trained	No of Seafarers Trained	3,000	2,023	(977)	3,000	2,023	(977)	Target not achieved This is due to lack of funding for the KNSL to charter vessels to undertake shipping. In addition, the Service Level Framework Agreement with

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Program	Strategic Objective	Outcome	Output	Output indicator	Achievement for the FY		Cumulative Achievement by end of FY			Remarks
					Target	Actual	Target	Actual	Variance	
										MSC is yet to be executed due to litigation cases. There was also low-level placement by licensed recruitment

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7. Governance Statement

Key Leadership and Governance Structure

The State Department for Shipping and Maritime Affairs (SDSMA) is headed by the **Principal Secretary**, who serves as the **Accounting Officer** and provides strategic direction, policy coordination, and oversight of the Department's operations. The Principal Secretary reports to the **Cabinet Secretary** responsible for Shipping and Maritime Affairs, who offers overall policy leadership on maritime matters.

At the management level, the Department is structured into key technical and administrative divisions overseen by **Directors and Heads of Departments**, who provide specialized leadership in maritime safety and security, marine environment management, maritime education and training, legal and regulatory affairs, and finance and administration.

Governance is supported by the following committees:

1. **Ministerial Audit Committee** – Provides independent assurance on the adequacy of risk management, internal control, and governance processes, in line with Regulation 174 of the Public Finance Management Regulations.
2. **Risk Management Committee** – Oversees enterprise risk management, development of internal control frameworks, and fraud prevention mechanisms.
3. **Human Resource Management Advisory Committee** – Ensures compliance with public service regulations and advises on staff welfare, performance management, and training.

Where commissions are concerned (e.g., statutory boards within the maritime sector such as the Kenya Maritime Authority Board):

- **Appointments** are made by the Cabinet Secretary in accordance with enabling legislation.
- **Tenure** is typically three years, renewable once, subject to performance and compliance with statutory provisions.
- **Functions** include providing strategic oversight, approving policies, and ensuring compliance with international maritime conventions.
- **Induction** is conducted upon appointment to familiarize members with the legal, policy, and operational framework of the sector.

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- **Conflict of Interest** – Commissioners and board members are required to declare personal interests in line with the Leadership and Integrity Act, 2012, and recuse themselves from decisions where conflicts may arise.

This governance structure ensures that leadership roles are clearly defined, decision-making processes are transparent, and accountability mechanisms are firmly in place to guide the Department in fulfilling its mandate of regulating and developing Kenya's maritime sector.

7.1 Leadership and Governance Structure

The State Department for Shipping and Maritime Affairs (SDSMA) operates under the overall policy guidance of the Cabinet Secretary responsible for Shipping and Maritime Affairs. The Accounting Officer provides executive oversight, supported by Directors, Heads of Departments, and specialized committees that ensure effective delivery of the mandate.

During the year under review, the Department also prioritized alignment of its governance and legislative framework with the Constitution and international maritime obligations. Notably, the Kenya Maritime Authority Act, 2006 and the Merchant Shipping Act, 2009 were reviewed, culminating in the development of the Maritime Laws (Amendment) Bill, 2025 and the draft Bandari Maritime Academy Bill, 2025. Further, six Merchant Shipping Regulations were developed and gazetted on 24th May, 2025, and subsequently approved by the National Assembly Delegated Legislation Committee.

7.2 Audit Committee

In compliance with Regulation 174 of the Public Finance Management (National Government) Regulations, the State Department established a Ministerial Audit Committee, mandated to strengthen oversight of internal controls and financial management.

During the year under review, the Committee held two meetings, against the statutory minimum of four, due to financial resource constraints. The composition of the Committee is as follows:

- **Chairperson:** Mr. Bernard Siero
- **Member:** Mr. William Koech
- **Member:** Ms. Florence Sila

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- **Treasury Nominee:** Mr. Patrick Maina

Despite the limited sittings, the Committee deliberated on internal audit reports and made recommendations to strengthen compliance and accountability. The Department has recognized the need for enhanced budgetary allocation to facilitate the Committee's statutory operations.

7.3 Risk Management

In line with Regulation 165 of the Public Finance Management Regulations, the State Department constituted a Risk Management Committee. The Committee's mandate is to:

- Develop and oversee implementation of the Risk Management Policy Framework.
- Establish robust internal control systems.
- Maintain an updated Asset Register.
- Institute fraud prevention and detection mechanisms.

The Department has initiated steps to institutionalize risk management across its operations and integrate it into strategic planning and decision-making processes.

7.4 Training and Development in Governance

No leadership or governance training was undertaken in FY 2024/2025 under the National Transformation Programme. However, the Department plans to comply with the Public Service circular (Ref. No. MPSG/DPSM/HRD/1/44/1VOL.VX (110), dated 30th January 2025), which prescribes mandatory in-service training in Strategic Leadership Development Programme (SLDP), Senior Management Course (SMC), Supervisory Skills Development Course (SSDC), and induction programmes for public officers.

7.5 Public Participation and Community Engagement

The Department actively promoted community engagement and environmental conservation through public participation initiatives. Key highlights include:

- Tree Planting Initiative under the Presidential Directive (Oct-Nov 2025): 129,000 mangrove trees planted in Tana River, Lamu, Kilifi, Mombasa, and Kwale Counties.

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- Rehabilitation Programme with Base Titanium (19th March 2025): 100,000 trees planted in Kwale County.
- Joint Programme with the State Department for Blue Economy (14th May 2025): 116,000 trees planted in Kipini, Tana River County.

These initiatives were also used as public awareness platforms to sensitize communities on marine resource conservation, climate change mitigation, and opportunities within the blue economy.

7.6 Compliance with Laws and Regulations

The State Department adhered to statutory and regulatory requirements by submitting mandatory reports to oversight institutions, including:

- Values and Principles Reports
- Compliance Audit Reports
- Quarterly Monitoring Reports on Human Resource Management and Development Functions to the Public Service Commission (PSC).

The PSC's decisions on HR management for FY 2024/2025 were fully implemented.

7.7 Employee Welfare

The Department undertook several welfare initiatives to support staff wellbeing, including:

- **Mental Health Awareness:** All staff sensitized in May 2025.
- **Support to Bereaved Officers:** Financial assistance and compassionate leave granted.
- **Pre-retirement Counselling:** Officers approaching retirement were provided guidance on pension management, financial planning, and psychosocial preparedness.
- **Farewell Celebrations:** Organized to honor retiring officers.

7.8 Legislative and Policy Reforms

In support of governance and regulatory compliance, the Department finalized the following:

- Development of the **Maritime Laws (Amendment) Bill, 2025** and the **draft Bandari Maritime Academy Bill, 2025**.
- Gazettement of six Merchant Shipping Regulations, 2025 (covering Maritime Labour, Prevention of Collision, Maritime Transport Operators, Load Lines, Tonnage Measurement, and Recognized Organizations).

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- Drafting of corrigenda for Legal Notices No. 93 and No. 95 of 2024.
- Legal support in the development of the **Maritime Investment Policy** to promote growth in the shipping and maritime industry.

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8. Management Discussion and Analysis

8.1 Overview

The State Department for Shipping and Maritime Affairs (SDSMA) continued to implement key projects and programmes aimed at enhancing maritime safety, security, environmental conservation, and sectoral development. Over the past three to five years, the Department has laid the foundation for strengthening the regulatory and institutional framework, enhancing infrastructure, and promoting sustainable utilization of Kenya's maritime resources.

This section outlines the performance of flagship projects, compliance with statutory obligations, challenges encountered, risks faced, and prospects for the maritime sector.

MDA's key Programs/projects or investment decisions implemented or ongoing,

Marine Pollution Project: The objective of this project is to develop a framework for prevention of pollution in the marine environment by ships operational or accidental causes by developing policies, regulations and domesticating International Maritime Organization's (IMO's) Conventions on Prevention and Control of Marine Pollution (MARPOL). The project will entail development of a framework for full implementation of the International Maritime Organization's (IMO's) Conventions on Prevention and Control of Marine Pollution (MARPOL) and a compensation regime for oil pollution damage from ships in marine environmental governance, seven comprehensive regulations aligned with IMO conventions on marine pollution were successfully developed.

Maritime Safety and Security Project: This project aims at enhancing safety of life at sea, protect maritime trade routes, and preserve the marine environment by strengthening the maritime law enforcement, and building institutional capacity. It entails installing and maintaining aids to navigation, upgrading vessel monitoring, enhancing port and coastal security, improving search and rescue and pollution response capabilities. This ensures compliance with the International Maritime Conventions, thence promoting safe and environmentally sustainable maritime transport. It achieved full-year targets with 12 safety regulations developed and 4 ISPS Code audits conducted, strengthening compliance with international maritime safety standards.

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Maritime Spatial Plan: The Plan aims at managing and allocate the use of maritime space and resources in a sustainable and efficient manner through mapping and protecting resources within the marine ecosystem for socioeconomic development. It will involve development of a comprehensive and integrated framework that will identify and map existing and potential uses of the maritime space, including economic, social, and environmental activities. The project will also focus on protection and regulation of marine ecosystems and resources in the Exclusive Economic Zone (EEZ). During the FY 2024/25, the State Department prepared a Project Concept Note, which was approved by the National Treasury and recommended a Pre-feasibility study be undertaken.

Construction of the Survival Training and Certification Centre Project: This project aims at constructing a training facility to provide skills and survival techniques against drowning, temperature extremes both in and out of water, dehydration, and longer effects of starvation in the event of distress at sea. During FY 2024/25, the Maritime Survival Training and Certification Centre Project under Bandari Maritime Academy (BMA) at 10% work done. Initially, the project had no budgetary allocation, but it received Kshs. 370 million in the Supplementary II, which was disbursed in May 2025. The following was the achievement of the project as at 30th June 2025; Construction of the site office, contractor's accommodation, powerhouse and relocation of the generator, development of septic tank and soak pit, 11kV HT cable delivery and installation, clearance of the site and site fencing. The approvals were obtained from Mombasa County Government, NCA, and NEMA. Geotechnical survey was also undertaken. The estimated project cost is Kshs. 2.425 billion.

Construction Kenya Lake Victoria Maritime Communication and Transport (KLVMCT) Project. This project will address the maritime transportation and navigation safety through provision of safe, efficient, cheap and environmentally friendly transport and communication system within the three East African countries sharing Lake Victoria but being implemented by through Kenya Maritime Authority. It will address maritime safety and security of the lake users through construction of a Maritime Rescue Coordination Centre in Kisumu and four (4) Search and Rescue Centres (SARs) in the riparian Counties of Migori, Homabay, Siaya and Busia. The Project is currently at its initial stages at 17% level of work done. Specifically, the following has been undertaken: i) Project Concept Note was developed and approved, ii) Prefeasibility study undertaken and approved, iii) Feasibility study is currently underway, iv) The building works for MRCC in Kisumu is ongoing. The contract was

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awarded to Kenya Shipyards Limited while Consultancy services was awarded to APRIM Consultants.

Development of the Kenya Maritime Data Bank: The project aims at developing a web-based solution that will provide a platform for information collection, storage, retrieval, and analysis of maritime data. It will enable sharing and availing of information related to the maritime sector to assist in policy interventions, research, and training. The project is being implemented by the State Department through Kenya Maritime Authority, KMA. The Department oversaw the implementation of the KMA Databank development project, which is its initial stage, currently at 10% work done. Procured a consultancy for system analysis and design, and conducted business analysis. Both business and system analysis and design are ongoing.

Kenya National Shipping Line Cargo Capacity Programme KNSL Project Mashariki: The project aims at enhancing the cargo carrying capacity. It will ensure sustainable revenue generation, provision of employment and sea time required during the training of seafarers. The Projects is undertaken by KNSL. However, currently, lack of funds has affected the implementation of the project. In the FY 2024/25, KNSL developed a Business Plan (Project Mashariki) as regional feeder service to be undertaken using internal resources. KNSL will therefore undertake the following services in the short and medium term; Transshipment, Liner shipping, Ship Agency, Clearing & Forwarding (Logistics) and Crew & manning. The project was approved by the Board of Directors on 29th January 2025 but Kenya National Shipping Line (KNSL) has not yet commenced implementation and plans to undertake the project in the FY 2025/26.

Compliance with Statutory Requirements

The Department complied with key statutory requirements, including:

- Submission of **Values and Principles Reports, Compliance Audit Reports, and Quarterly HRM&D Returns** to the Public Service Commission.
- Implementation of PSC decisions on HR functions in FY 2024/25.
- Development and gazettelement of six Merchant Shipping Regulations (2024), aligned to IMO conventions.

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- Legislative review leading to the **Maritime Laws (Amendment) Bill, 2025** and the **draft Bandari Maritime Academy Bill, 2025**

Major Risks and Challenges

The Department encountered several risks that affected optimal implementation of projects:

1. **Financial Constraints** – Inadequate and delayed funding (e.g., Bandari Survival Centre, KNSL Project Mashariki) slowed down project progress.
2. **Institutional Capacity Gaps** – Shortage of technical expertise in specialized maritime areas affected timely delivery of complex projects.
3. **Operational Risks** – Dependence on multiple approvals and inter-agency coordination led to project delays (e.g., maritime spatial plan and data projects).
4. **Environmental Risks** – Climate change and marine pollution present long-term threats to the sustainability of maritime transport and blue economy resources.

Financial Performance and Arrears

The Department managed its resources prudently. However, certain projects suffered from underfunding or delayed disbursements. As at 30th June 2025:

- No material arrears in statutory obligations were recorded.
- Development projects accounted for the largest share of expenditures, particularly in infrastructure (Survival Training Centre and KLVMT Project)

Review of the Economy and Sector

The maritime sector remains a critical driver of Kenya's trade and connectivity, contributing to the **Blue Economy Agenda**. Regional integration through initiatives on Lake Victoria and Lake Turkana is expected to unlock cross-border trade, while investment in port safety and security ensures compliance with international conventions, sustaining Kenya's competitiveness as a maritime hub.

Globally, increased focus on decarbonization and digitalization in shipping is reshaping sectoral priorities, creating both opportunities and compliance demands for Kenya.

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Future Developments

Looking ahead, the Department will prioritize:

1. Completion of the **Bandari Maritime Academy Survival Training Centre**.
2. Progressing the **KLVMCT Project** towards full operationalization of MRCC and SAR centers.
3. Implementation of the **Kenya Maritime Data Bank** and **Maritime Sector Data Project** for evidence-based policymaking.
4. Rollout of **Project Mashariki** by KNSL to boost regional cargo capacity.
5. Advancing the **Lake Turkana Maritime Transport and Investment Project** to feasibility stage.
6. Strengthening institutional capacity through mandatory training programmes (SLDP, SMC, SSDC).

Maritime Sector Data Project: The project aims at developing a comprehensive framework for the collection, collation, and analysis of maritime data, which is essential for informed decision-making by both public and private sector stakeholders. By filling this data gap, the project will enable accurate measurement of the maritime sector's economic impact, providing policymakers and regulators with the data needed to formulate effective strategies and policies that can foster growth and development in the sector. During the FY 2024/25, the State Department initiated the development of the Maritime Sector Data Project by preparing the Project Concept Note, which will be approved by the Accounting Officer

Lake Turkana Maritime Transport and Investment Project (LTMTIP): The main objective of this Project for Lake Turkana is to develop an integrated maritime spatial framework and provide the necessary infrastructure and systems to ensure the safe, efficient, and sustainable use, governance, and economic development of the Lake Turkana's maritime resources. The SDSMA initiated its development by preparing the Project Concept Note, which was approved and the authority given to undertake a pre-feasibility study by the National Treasury.

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Annual Report and Financial Statements for the year ended June 30, 2025.*

9. Environmental and Sustainability Reporting Mission

The State Department's mission is "to promote and develop Maritime and Shipping Industry in Kenya through policy formulation and implementation, coordination and fostering regional and global cooperation".

(I) Sustainability strategy and profile

The SDSMA is committed to operating with prudence use of available resources; finances, people, and machines in line with its core values and principles; Good governance, Non-discrimination, Professionalism, Patriotism, and sustainable development. The effective sustainability strategies have delivered several benefits to the SDSM, including innovation and growth, risk management, good reputation, cost savings, and staff motivation.

(II) ICT infrastructure

The Department revamped its ICT infrastructure to support its Mandate. Having a reliable LAN and WAN network has improved its internal communication and collaboration, ensuring achievement of its strategic activities as follows:

- (i) A vibrant website was revamped in collaboration with ICT authority for ease of maintenance and necessary security control.
- (ii) To increase computers to user's ratio, additional computers were acquired to ease work flow.
- (iii) Robust security control, XDR, software was installed in all the available machines to safeguard users from unnecessary malware attacks.
- (iv) ICT office stepped up awareness to users on safe practices in the ICT space.
- (v) More Access points were installed for ease of access of WiFi. This has reduced conflicts within the local area Network that are brought about by Desktop routers.
- (vi) Maintenance of all ICT equipment switches, routers, LANs, WANs, Printers, Desktops to be in good working conditions.

The department of ICT in the SDSMA in collaboration with its SAGAS had a number of deliverables during the year under review, these include:

1. Identifying and prioritizing Core services for business process reengineering
2. Re-engineered two services reengineered end to end

State Department for Shipping and Maritime Affairs

Annual Report and Financial Statements for the year ended June 30, 2025.

Despite the above deliverables, this financial year has been tough since there were austerity measures resulting into budget cuts and eventually no budget for ICT even though all Ministries and Departments and Agencies (MDAs) were instructed to reserve at least 5% of their annual budgets for Digitalization program – an activity which is carried out in all MDAs.

(III) Ministerial Audit Committee.

Regulation 174 requires each national government entity to establish an audit committee with a minimum of three members, excluding a person who shall be appointed to represent the National Treasury in each audit committee and a maximum of five.

During the year under review, the Ministerial Audit Committee, which was established in the previous financial year held two meetings at our State Department, where internal audit reports were discussed.

The Committee is composed of:

- i. Chairman: Bernard Siero
- ii. Member: William Koech
- iii. Member: Florence Sila
- iv. Treasury Nominee: Patrick Maina

The Committee has been having financial challenges hence resulting to two meetings, instead of the statutory requirements of at least four. Therefore, there is a need for adequate budget provisions for the Committee.

(ii) Risk Management

Regulation 165. Requires the Accounting Officer to do the following on risk management:

Ensure that the national government entity develops:

- (a) risk management strategies, which include fraud prevention mechanisms;
- (b) a system of risk management and internal control that builds robust business operations.

The State Department has recently put in place a Risk Management Committee to oversee development of the institution's Risk Management Policy Framework, Internal Control System, and Asset register, among other roles.

b. Environmental performance /climate change/ mitigation of natural disasters

SDSMA has mainstreamed its environmental sustainability goals within all its operation areas as part of its corporate strategy to enhance the core mandate. Therefore, it continues to comply with

State Department for Shipping and Maritime Affairs

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applicable environmental laws and regulations in the public sector. The SDSM has allocated in its budget funds for contracted cleaning services, supplies of cleaning material, and services to facilitate general cleanliness in all its offices.

The department through the Presidential directive of tree planting was in a position to plant 129,000 mangrove trees in the coastal counties of Tana River, Lamu, Kilifi, Mombasa and Kwale to help with marine resource conservation and climate change between October and November 2024. In addition, by collaboration with Base Titanium the state department was planted 100,000 trees in the rehabilitation of the Base Titanium fields in Kwale County on 19th March 2025.

c. Employee welfare

During the year under review, the department staff were sensitized on mental health awareness workshop which was organized to promote a healthy, happier, and more productive workforce.

Officers who were bereaved were supported financially and granted compassionate leave in line with the Human Resource Policy. In addition, officers who were due for retirement were offered pre-retirement counselling -Assistance with financial planning, such as understanding pension options, managing finances, and making informed decisions about their future in the previous year. Farewell celebrations were also done to the retiring officers.

The department continues to comply with the circular from the State Department for Public Service ref no. MPSG/DPSM/HRD/1/44/1VOL.VX (110) dated, 30th January 2025 on mandatory in-service training programmes for the Public service programmes on a priority basis especially in Strategic Leadership Development Programme (SLDP), Senior Management Course (SMC), Supervisory Skills Development Course (SSDC) and the induction course in accordance to the eligibility guidelines in the civil Service.

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On 13th May 2025, SDSMA Staff Attended a Mental Health Awareness Sensitization Session at the Department's Boardroom.

d. Operational practices

The SDSMA prioritizes integrity, transparency and accountability in conducting procurement proceedings. It adheres to industry regulations guided by the Public Procurement Asset and Disposal Act, 2015 (PPADA) and Public Procurement Asset and Disposal Regulations, 2020 (PPADR). It promotes fair competition, and fosters a culture of continuous improvement and ethical conduct that supports sustainable and responsible business practices. The suppliers are critical partners in the value chain and to maintain strong, long-term relationships, the department ensures that: **i)** all supplier agreements are entered into with clear terms and mutual understanding, **ii)** it strictly follows agreed payment schedules, aiming to pay invoices on time and in full, **iii)** it maintains regular and transparent communication with suppliers to address any issues proactively and collaboratively. Feedback is encouraged and mutual performance reviews are conducted when appropriate and **vi)** suppliers are chosen not only based on cost and quality but also on their commitment to ethical practices, including labor rights, environmental impact, and compliance with local and international laws.

During the year under review, 2024/2025, the performance in compliance with the Access to Government Procurement Opportunities (AGPO) framework and Local Content requirements. These initiatives are designed to promote inclusive economic participation by empowering youth, women, persons with disabilities (PWDs), and local enterprises in public procurement. This was achieved as shown in the table below:

State Department for Shipping and Maritime Affairs

Annual Report and Financial Statements for the year ended June 30, 2025.

Category	No. of Contracts Awarded	Total Value of Contracts Awarded	% of Contract Value Per Category
PWD	3	1,462,000	2.3
Women	34	25,730,140	41.1
Youth	10	11,765,950	18.9

In line with national local content policies, the State Department prioritizes the procurement of goods and services from local suppliers and manufacturers. The strategy aims to enhance domestic value addition, create employment, and support local industries. During the year under review, goods and services worth **Kshs. 62,546,955** were procured locally, translating to **100%** Buy Kenya Build Kenya.

e. Community Engagements

Corporate Social Responsibility (CSR) is an essential component that enables an entity to participate in promoting environmental, ethical, and socioeconomic concerns of the communities. During the period under review, the SDSMA) through the Presidential directive of tree planting was able to plant 129,000 mangrove trees in the coastal counties of Tana River, Lamu, Kilifi, Mombasa and Kwale to help with marine resource conservation and climate change between October and November 2025.

In addition, by collaboration with Base Titanium the state department was planted 100,000 trees in the rehabilitation of the Base Titanium fields in Kwale County on 19th March 2024. Further, in partnership with the State Department for the Blue Economy, a total of 116,000 trees were planted in Kipini, Tana River County, on 14th May 2025. This exercise was part of a broader public awareness campaign to promote environmental conservation, particularly in the marine and coastal ecosystems. It also served as a platform to educate local communities on the environmental and economic benefits of tree planting and highlight opportunities within the maritime sector.



On 19th March 2025, SDSMA and Base Titanium staff planted trees to rehabilitate the land after mining the Base Titanium in Kwale.



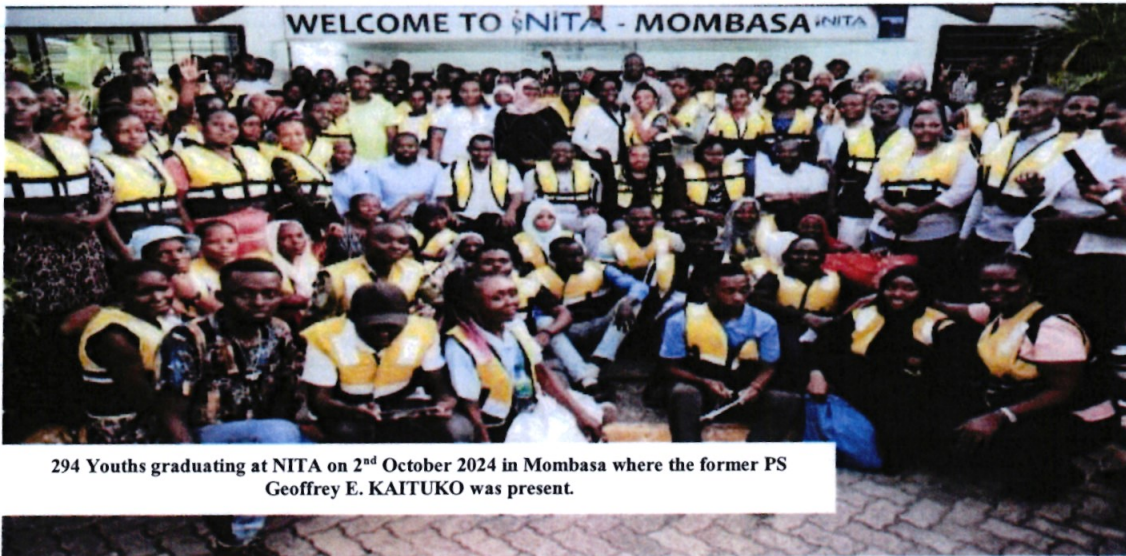
On 14th May 2025, the SDSMA Officers, Kipini Community and the SD of Blue Economy planted trees at the shores of Kipini in Tana River County.

State Department for Shipping and Maritime Affairs

Annual Report and Financial Statements for the year ended June 30, 2025.

Our state Department also participated in community engagements through its SAGA, Kenya Maritime Authority. On 2nd October 2024, the State Department (SDSMA) participated in the graduation ceremony of the 294 youths who successfully completed training on how to make life jackets and other maritime safety equipment intended for coxswains and fishermen operating at sea. The training was conducted by the National Industrial Training Authority (NITA) with technical support from the Kenya Maritime Authority (KMA) in Mombasa.

This initiative underscores the Department's commitment to enhancing safety standards within the maritime sector and empowering youth with essential skills for safe and sustainable marine activities as well as job creation.



294 Youths graduating at NITA on 2nd October 2024 in Mombasa where the former PS Geoffrey E. KAITUKO was present.

*State Department for Shipping and Maritime Affairs
Annual Report and Financial Statements for the year ended June 30, 2025.*

10. Statement of Management Responsibilities

Section 81 (1) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer for a National Government MDA shall prepare financial statements in respect of that MDA. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed the Public Sector Accounting Standards Board of Kenya from time to time.

The Accounting Officer in charge of the State Department for Shipping and Maritime Affairs (SDSMA) is responsible for the preparation and presentation of the SDSMA's financial statements, which give a true and fair view of the state of affairs of the MDA for and as at the end of the financial year (period) ended on June 30, 2025. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period, (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the SDSMA, (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud, (iv) safeguarding the assets of the SDSMA; (v) selecting and applying appropriate accounting policies, and (vi) making accounting estimates that are reasonable in the circumstances.

The Accounting Officer of the State Department for Shipping and Maritime Affairs (SDSMA) accepts responsibility for the preparation and presentation of the Department's 1st transition financial statements. These financial statements have been prepared on the Accrual Basis of Accounting, using appropriate accounting policies and in accordance with the International Public Sector Accounting Standards (IPSAS), as modified by the transitional provisions permitted under IPSAS 33. The Accounting Officer acknowledges that, because the Department is in its first year of the three-year transition period, these financial statements are not yet fully compliant with all recognition and measurement requirements of IPSAS Accrual. Certain elements—specifically Non-Financial Assets, Non-Financial Liabilities, and Inventories—have not been recognised in accordance with the transitional reliefs provided under IPSAS 33.

The Accounting Officer in charge of the State Department for Shipping and Maritime Affairs confirms that the SDSMA has complied fully with applicable Government Regulations and the terms of external

*State Department for Shipping and Maritime Affairs
Annual Report and Financial Statements for the year ended June 30, 2025.*

financing covenants (where applicable), and that the MDA's funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the Accounting Officer confirms that the MDA's financial statements have been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

Approval of the financial statements

The *State Department for Shipping and Maritime Affairs*'s financial statements were approved on 4th December, 2025 and signed by:



.....
Aden Abdi Millah
Accounting Officer

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON STATE DEPARTMENT FOR SHIPPING AND MARITIME AFFAIRS FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;
- B. Report on Lawfulness and Effectiveness in the Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose; and,
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An Unmodified Opinion is issued when the Auditor-General concludes that the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management, and Governance.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying transitional International Public Sector Accounting Standards (IPSAS) financial statements of State Department for Shipping and Maritime

Report of the Auditor-General on State Department for Shipping and Maritime Affairs for the year ended 30 June, 2025

Affairs set out on pages 1 to 33, which comprise of the statement of financial position as at 30 June, 2025, the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the transitional IPSAS financial statements present fairly, in all material respects, the financial position of State Department for Shipping and Maritime Affairs as at 30 June, 2025 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards Accrual Basis (including the transitional provisions permitted under IPSAS 33), and comply with the Public Finance Management Act, 2012 and The National Treasury and Economic Planning Circular No.3 of 14 April, 2025.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the State Department for Shipping and Maritime Affairs Management in accordance with ISSAI 130 on the 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 opinion.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total expenditure budget of Kshs.3,493,335,194 comprising of recurrent and development expenditure of Kshs.3,470,335,194, Kshs.23,000,000 respectively. However, analysis of the budget and actual expenditure revealed over-expenditure of Kshs.16,296,339 on ten (10) recurrent expenditure items under use of goods and services.

Further, the State Department spent Kshs.11,618,050 on development expenditure against a budget of Kshs.23,000,000 resulting in under expenditure of Kshs.11,381,950 or 49%. The underperformance may have affected the implementation of planned activities by the State Department which may have impacted negatively on service delivery to the citizens.

My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, 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

Unresolved Prior Year Matters

In the prior years' audit report, several issues were raised under the Report on Financial Statements and the Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of the State Department in 2024/2025 financial year revealed that the following matters remained unresolved.

	Financial Year	Audit Issue
1	2023/2024	Budgetary Control and Performance
2	2023/2024	Outstanding Pending Bills
3	2023/2024	Non-Compliance with the one third of the Basic Salary Rule
4	2023/2024	Leave Management

Other Information

Management is responsible for the Other Information set out on page iv to I which comprise of Key Department Information and Management, Profile of Cabinet Secretary, Profile of Accounting Officer and Key Management, Statement by the Cabinet Secretary, Statement of Performance and Against Predetermined Objectives, Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting Mission and Statement of Management Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the State Department's financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on

Lawfulness and Effectiveness in the Use of Public Resources section of my report, I confirm that nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Payment of Rent Without Valid Lease Agreement

The statement of financial performance and Note 9 to the financial statements reflects expenditure on use of goods and services of Kshs.179,956,606 which includes Kshs.26,435,959 incurred on rental of produced assets. Review of the expenditure revealed rent payments for the State Department's offices at National Social Security Fund (NSSF) Annex building amounting to Kshs.8,285,079. However, the payments were not supported by an offer letter from the landlord, a letter of acceptance or formal lease of tenancy agreement. In addition, Management paid rent for an additional offices in a different floor amounting to Kshs.18,150,879 without a valid lease agreement, as the existing lease for the office space had expired in February, 2023.

In the circumstances, the regularity of the payments of Kshs.26,435,959 made without a valid lease agreement, could not be confirmed.

2. Human Resource Management

2.1 Non-Authentication of Academic Qualifications for Employees

Review of the Human Resource records revealed that Management was yet to undertake authentication of employees' academic and professional certificates, contrary to the Public Service Commission (PSC) Circular issued on 19 October, 2022, which required all Authorized Officers in Government institutions to undertake an audit of academic and professional certificates of their staff.

In the circumstances, Management was in breach of Government Policies.

2.2 Non-Compliance to One-Third Basic Salary Rule

Analysis of payroll data revealed that four (4) employees were paid a net salary that was less than one-third of their basic pay, contrary to Section 19(3) of the Employment Act, 2007. The Act stipulates those deductions made from an employee's wages or salary at any one time shall not exceed two-thirds of such wages or salaries.

In the circumstances, Management was in breach of the law.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require 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 comply in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

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

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal controls 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the State Department's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention 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 comply with the authorities which govern them and that public resources are applied in an effective way.

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

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. 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 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 conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: <https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/>. This description forms part of my auditor's report.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

10 December, 2025

State Department for Shipping and Maritime Affairs
Annual Report and Financial Statements for the year ended June 30, 2025

12. Statement of Financial Performance for the year ended 30 June 2025

	Notes	30 th June 2025
		Kshs
Revenue from non-exchange transactions		
Transfers from Exchequer	6	984,128,513
Total		984,128,513
Revenue from exchange transactions		
Miscellaneous income	7	2,403,272,107
Total revenue		3,387,400,620
Expenses		
Employee costs	8	144,414,024
Use of goods and services	9	179,956,606
Transfers to other Government Entities	10	3,047,004,507
Depreciation and amortization expense	11	2,327,081
Total expenses		3,373,702,218
Surplus for the period		13,698,403

The Financial Statements set out on pages 1 were signed by:



.....
Aden Abdi Millah

Accounting Officer



.....
Tom Oboke Ndhine

Head of Accounting Unit
ICPAK M/No 6801

State Department for Shipping and Maritime Affairs
Annual Report and Financial Statements for the year ended June 30, 2025

14 Statement of Financial Position as at 30 June 2025

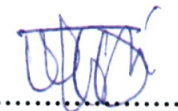
	Notes	30 th June 2025	01 st July 2024
		Kshs	Kshs
Assets			
Current Assets			
Cash and Cash equivalents	12	1,053,907	1,501,739
Total Current Assets		1,053,907	1,501,739
Non-Current Assets			
Property, Plant and Equipment	13	9,290,969	2,575,000
Total Non- Current Assets		9,290,969	2,575,000
Total Assets (a)		10,344,875	4,076,739
Liabilities			
Current Liabilities			
Trade and Other Payables	14	2,948,807	11,905,463
Current Provision	15(a)	1,526,390	-
Total Current Liabilities		4,475,197	11,905,463
Non-Current Liabilities			
Non-Current Provisions	15(b)	2,607,601	2,607,601
Total Non- Current Liabilities		2,607,601	2,607,601
Total Liabilities (b)		7,082,798	14,513,064
Net Assets (a-b)		3,262,077	(10,436,325)
Represented by:			
Accumulated Surplus		3,262,077	(10,436,325)
Net Assets		3,262,077	(10,436,325)

The financial statements set out on pages 2 were signed by:



.....
Aden Abdi Millah

Accounting Officer



.....
Tom Oboke Ndhine

Head of Accounting Unit

ICPAK 6801.

State Department for Shipping and Maritime Affairs
Annual Report and Financial Statements for the year ended June 30, 2025

ICPAK M/No 6801

State Department for Shipping and Maritime Affairs
Annual Report and Financial Statements for the year ended June 30, 2025

15 Statement of Changes in Net Assets for the year ended 30 June 2025

	Accumulated Surplus	Total
Fund balance as at 30th June 2024	87,921	87,921
Adjustments		
Adjustment to recognize assets	2,575,000	2,575,000
Adjustment to recognize liabilities	(13,099,246)	(13,099,246)
As at July 1, 2025	(10,436,325)	(10,436,325)
Return to Exchequer	(1)	(1)
Surplus/ deficit for the year	13,698,403	13,698,403
As at June 30, 2025	3,262,077	3,262,077

State Department for Shipping and Maritime Affairs
Annual Report and Financial Statements for the year ended June 30, 2025

16. Statement of Cash Flows for the year ended 30 June 2025

		<i>30th June 2025</i>
	Notes	Kshs
Cash flows from operating activities		
Receipts		
Transfers from exchequers	6	984,128,513
Other income	7	2,403,272,107
Total receipts		3,387,400,620
Payments		
Employee costs	8	142,887,634
Use of goods and services		186,338,262
Transfers to other Government Entities	10	3,047,004,507
Total payments		3,376,230,402
Net cash flows from operating activities		11,170,218
Cash flows from investing activities		
Purchase of PPE	13	(11,618,050)
Net cash flows from investing activities		(11,618,050)
Cash flows from financing activities		
Return to Exchequer		(1)
Net cash flows from financing Activities		(1)
Net increase/(decrease) in cash & Cash equivalents		(447,833)
Cash and cash equivalents at 1 July	12	1,501,739
Cash and cash equivalents at 30 June	12	1,053,907

State Department for Shipping and Maritime Affairs
Annual Report and Financial Statements for the year ended June 30, 2025

17. Statement of Comparison of Budget and Actual amounts for the year ended 30 June 2025
Recurrent and Development Combined

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
Receipts						
Exchequer releases	993,974,935	1,360,259	995,335,194	984,128,513	11,206,681	99%
Miscellaneous receipts	2,600,000,000	(102,000,000)	2,498,000,000	2,403,272,107	94,727,893	96%
Total Receipts	3,593,974,935	(100,639,741)	3,493,335,194	3,387,400,620	105,934,574	97%
Payments						
Compensation of employees	151,000,000	60,369,047	211,369,047	141,672,979	69,696,068	67%
Use of goods and services	151,745,878	29,005,569	180,751,447	184,931,985	(4,180,539)	102%
Transfers to other government entities	3,261,000,000	(184,000,000)	3,077,000,000	3,047,004,507	29,995,493	99%
Social security benefits	1,214,700	-	1,214,700	1,214,654	46	100%
Total recurrent expenses	3,564,960,578	(94,625,384)	3,470,335,194	3,374,824,125	95,511,022	97%
Capital items						
Acquisition of assets	29,014,357	(6,014,357)	23,000,000	11,618,050	11,381,950	51%
Total expenses - Development	29,014,357	(6,014,357)	23,000,000	11,618,050	11,381,950	51%
Total Payments	3,593,974,935	(100,639,741)	3,493,335,194	3,386,442,176	106,893,018	97%
Surplus	-	-	-	958,444	(958,444)	

(a) *Variance analysis: The underutilization in the Transfers to other government entities was as a result of change to the supplementary budget.*

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(b) *Reallocations within the year: Kshs. 100,639,741 the changes between the original and final budget are as a result of reallocations within the budget.*

The entity financial statements were approved on 4th December, 2025 and signed by:



.....
Aden Abdi Millah

Accounting Officer



.....
Tom Oboke Ndhine

Head of Accounting Unit
ICPAK M/No 6801

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Budget Reconciliation to the Statement of Cash Flows

	Description of Particulars	Amount in Kshs
	Actual Surplus Amounts as per the statement of Budget	958,444
1	Basis difference	(1,406,275)
2	Timing differences	1,501,739
3	Classification differences	(1)
	Closing Cash and Cash Equivalent as per the statement of Cash flows	1,053,907

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Budget Execution by Programmes and Sub-Programmes for FY2024/25

Programme/Sub-programme	Original Budget	Adjustments	Final Budget	Actual on comparable basis	Budget utilization difference
	Kshs	Kshs	Kshs	Kshs	Kshs
Programme 1					
Sub-programme 1	282,071,485.00	-	282,071,485.00	265,333,087.50	16,738,398
Sub-programme 2	173,480,173.00	-	173,480,173.00	179,049,176.50	(5,569,004)
Sub-programme 3	3,037,783,536.00	-	3,037,783,536.00	2,276,272,532.20	761,511,004
Total	3,493,335,194.00	-	3,493,335,194.00	2,720,654,795.35	772,680,399

**State Department for Shipping and Maritime Affairs
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18. Notes to the Financial Statements

1. Establishment

The **State Department for Shipping and Maritime Affairs** was established by and derives its authority and accountability from Executive Order No. 1 of 2016. The State Department is wholly owned by the Government of Kenya and is domiciled in Kenya. The MDA's principal activity is to promote and develop Maritime and Shipping Industry in Kenya.

2. Statement of Compliance and Basis of Reporting

Statement of compliance

These financial statements have been prepared in accordance with the Public Finance Management Act, 2012 and the State Department has taken advantage of the transitional provisions under IPSAS 33 and therefore these 1st year financial statements are transitional financial statements. As permitted under IPSAS 33, the State Department for Shipping and Maritime Affairs is implementing a phased three-year transition plan to achieve full compliance with IPSAS Accrual. During this first year of transition, the Department has not recognised the following elements of the financial statements:

- Non-Financial Assets
- Non-Financial Liabilities
- Inventories

These items have been excluded in accordance with the transitional reliefs provided under IPSAS 33, which allow entities additional time to develop systems, processes, and capacity for full adoption.

The State Department is progressively implementing the steps required to achieve full compliance with IPSAS Accrual, including:

- Strengthening asset management processes, including identification, verification, and valuation of assets.
- Enhancing financial reporting systems to support recognition and measurement in accordance with IPSAS.
- Capacity building for staff to ensure consistent application of IPSAS requirements.
- Establishing and documenting policies, procedures, and internal controls aligned to IPSAS standards.

Full compliance with IPSAS Accrual will be achieved upon completion of the prescribed transition period as guided by IPSAS 33.

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For the purpose of these financial statements, the State Department for Shipping and Maritime Affairs has been categorized as a Schedule 1 national government MDA in line with Section 4 of the Public Finance Management Act, 2012 read together with Regulation 211 (2) of the Public Finance Management (National Government) Regulations, 2015. Schedule 1 national government entities include Ministries, Departments, Agencies, constitutional institutions and independent offices. MDAs are reporting entities whose primary objective is to provide policy and coordination of government services.

The use of public resources by MDAs is primarily governed by Chapter 12 of the Constitution, the relevant Appropriation Act, the Public Finance Management Act, of 2012, and the Public Procurement and Disposal Act, of 2015.

These financial statements were authorized for issue by the Accounting Officer on 4th December, 2025

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Reporting period

The reporting period for these financial statements is for the period ended 30-06-2025.

Basis of preparation

These financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the period on an accrual basis unless otherwise specified (for example, the Statement of Cash Flows). Under an accrual basis, revenues are recognised when rights to assets are earned or levied rather than when cash is received, and expenses are recognised when obligations are incurred rather than when they are settled. The financial statements have been prepared and presented in Kenya Shillings to the nearest shilling. The accounting policies adopted have been consistently applied to all the years presented.

Critical accounting judgements

IPSAS requires accounting judgments to be made in determining accounting policies that impact the presentation of these financial statements. The most critical of these judgements, and their impact, are:

Recognition of revenue

Revenue is an increase in the net financial position, other than increases arising from ownership contributions. Revenue is required to be measured when the event occurs and when recognition criteria (probable inflow of resources and ability to reliably measure their value) are met. Judgment is required to determine if these criteria are met, particularly where limited evidence is available at the time the revenue is earned.

Recognition of non-exchange expenses and liabilities

A liability is a present obligation of the State Department for an outflow of resources that results from a past event. Expenses (and other liabilities) are recognized when there is a present obligation (legal or constructive) as a result of a past event. An outflow of resources embodying economic benefits will probably be required to settle the obligation and a reliable estimate of the obligation can be made. Judgment is required in assessing each of these conditions, and therefore reporting if an expense and a present obligation should be reported.

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The State Department pursues a number of policy targets and outcomes. However, the commitment to these targets and outcomes, generally, do not of themselves constitute a present obligation unless the *MDA* is clear on the cost it intends to incur, when payment will be made, and to whom and as a consequence has raised a valid expectation. As a consequence, liabilities are not reported for costs associated with the *MDA* policy objectives and targets. Where a policy choice gives rise to an obligation that exists independently of the *MDAs* future actions, expenses (and other related liabilities) are recognized for that policy.

Purpose and nature of financial instruments

Judgment is required in determining whether financial assets (including investment in securities and advances) and financial liabilities are held for trading or to provide a return through interest and principal transactions. Depending on that judgment, financial instruments will be reported at fair value or on an amortized cost basis.

Climate change obligations

Kenya's current National Determined Contribution (NDC) to deliver on the goals of the Paris Agreement sets a headline target of a 32 per cent emission reduction by 2030 relative to the business-as-usual scenario of 143 MtCO₂eq. *MDAs* commitment to climate change action does not constitute a present obligation on the balance sheet but are disclosed separately.

Physical assets

An asset is a resource presently controlled by the *MDA* as a result of a past event. The primary reason for holding property, plant and equipment and other assets is for their service potential rather than their ability to generate cash flows. Because of the types of services provided, a significant proportion of assets used by public sector entities including roads, national parks, heritage buildings etc are specialized in nature. There may be a limited market for such assets and so judgement is required on measurement. Judgment is also required whether assets are held for commercial purposes or public benefit purposes.

**State Department for Shipping and Maritime Affairs
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Notes to the Financial Statements (Continued)

3. Adoption of New and Revised Standards

i) New and amended standards and interpretations in issue effective in the year ended 30 June 2025.

There were no new and amended standards issued in the financial year.

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2025.

Standard	Effective date and impact:
IPSAS 43	<p><i>Applicable 1st January 2025</i> The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an MDA. The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities. <i>This standard does not apply to SDSMA</i></p>
IPSAS 44: Non-Current Assets Held for Sale and Discontinued Operations	<p><i>Applicable 1st January 2025</i> The Standard requires, Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and: Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance. <i>This standard does not apply to SDSMA</i></p>
IPSAS 45- Property Plant and Equipment	<p><i>Applicable 1st January 2025</i> The standard supersedes IPSAS 17 on Property, Plant and Equipment. IPSAS 45 has additional guidance/ new guidance for heritage assets, infrastructure assets and measurement. Heritage assets were previously excluded from the scope of IPSAS 17 in IPSAS 45, heritage assets that satisfy the definition of PPE shall be recognised as assets if they meet the criteria in the standard. IPSAS 45 has an additional application guidance for infrastructure assets, implementation guidance and illustrative examples. The standard has clarified existing principles e.g valuation of land over or under the infrastructure assets, under- maintenance of assets and distinguishing significant parts of infrastructure assets. <i>This standard does not apply to SDSMA</i></p>
IPSAS 46 Measurement	<p><i>Applicable 1st January 2025</i> The objective of this standard was to improve measurement guidance across IPSAS by:</p> <ol style="list-style-type: none"> i. Providing further detailed guidance on the implementation of commonly used measurement bases and the circumstances under which they should be used. ii. Clarifying transaction costs guidance to enhance consistency across IPSAS;

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Standard	Effective date and impact:
	<p>iii. Amending where appropriate guidance across IPSAS related to measurement at recognition, subsequent measurement and measurement related disclosures.</p> <p>The standard also introduces a public sector specific measurement bases called the current operational value.</p> <p><i>This standard does not apply to SDSMA</i></p>
IPSAS 47- Revenue	<p><i>Applicable 1st January 2026</i></p> <p>This standard supersedes IPSAS 9- Revenue from exchange transactions, IPSAS 11 Construction contracts and IPSAS 23 Revenue from non- exchange transactions. This standard brings all the guidance of accounting for revenue under one standard. The objective of the standard is to establish the principles that an MDA shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flow arising from revenue transactions.</p> <p><i>This standard does not apply to SDSMA</i></p>
IPSAS 48- Transfer Expenses	<p><i>Applicable 1st January 2026</i></p> <p>The objective of the standard is to establish the principles that a transfer provider shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of expenses and cash flow arising from transfer expense transactions. This is a new standard for public sector entities geared to provide guidance to entities that provide transfers on accounting for such transfers.</p> <p><i>This standard does not apply to SDSMA</i></p>
IPSAS 49- Retirement Benefit Plans	<p><i>Applicable 1st January 2026</i></p> <p>The objective is to prescribe the accounting and reporting requirements for the public sector retirement benefit plans which provide retirement to public sector employees and other eligible participants. The standard sets the financial statements that should be presented by a retirement benefit plan.</p> <p><i>This standard does not apply to SDSMA</i></p>
IPSAS 50: Exploration For & Evaluation of Mineral Resources	<p><i>Applicable 1st January 2027</i></p> <p>The objective of this Standard is to specify the financial reporting for the exploration for and evaluation of mineral resources. The Standard requires:</p> <ul style="list-style-type: none"> i. Limited improvements to existing accounting practices for exploration and evaluation expenditures. ii. Entities that recognize exploration and evaluation assets to assess such assets for impairment in accordance with this Standard and measure any impairment in accordance with IPSAS 26. iii. Disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognized. <p><i>This standard does not apply to SDSMA</i></p>

**State Department for Shipping and Maritime Affairs
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iii) Early adoption of standards

The State Department did not early - adopt any new or amended standards in the financial year.

4. Summary of Significant Accounting Policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Fees, taxes and fines

The State Department For shipping and Maritime affairs recognizes revenues from fees, taxes and fines when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the MDA and the fair value of the asset can be measured reliably.

b) Budget information

The original budget for FY 2024/2025 was approved by the National Assembly **on 28th June 2024**. Subsequent revisions were made to the approved budget in accordance with specific approvals from the appropriate authorities. The reduction in appropriations is subtracted to the original budget by the State Department For shipping and Maritime Affairs upon receiving the respective approvals in order to conclude the final budget. Accordingly, the SDSMA recorded a reduction in appropriations of Kshs. 100,639,741 on the 2024/25 budget following the governing body's approval. The State Department's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial

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statements and the approved budget. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of cash flows has been presented under section xxx of these financial statements.

c) Property, plant and equipment

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

d) Financial instruments

IPSAS 41 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. *This State Department does not have any hedge relationships and therefore the new hedge accounting rules have no impact on the Company's financial statements. (amend as appropriate).* A financial instrument is any contract that gives rise to a financial asset of one MDA and a financial liability or equity instrument of another MDA. At initial recognition, the MDA measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

a) Financial assets

Classification of financial assets

The State Department For shipping and Maritime classifies its financial assets as subsequently measured at amortised cost, fair value through net assets/ equity or fair value through surplus and deficit on the basis of both the MDA's management model for financial assets and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost when the financial asset is held within a management model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. A financial asset is measured at fair value through net assets/ equity if it is held within the management model whose objective is achieved by both collecting contractual cashflows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset shall be measured at fair value through surplus or deficit unless it is measured at amortized cost or fair value through net assets/ equity unless an MDA has made irrevocable election at initial recognition for particular investments in equity instruments.

Subsequent measurement

Based on the business model and the cash flow characteristics, the State Department classifies its financial assets into amortized cost or fair value categories for financial instruments. Movements in fair value are presented in either surplus or deficit or through net assets/ equity subject to certain criteria being met.

Amortized cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at fair value through surplus or deficit, are measured at amortized cost. A gain or loss on an instrument that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is de-recognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

State Department for Shipping and Maritime Affairs
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Notes to the Financial Statements (Continued)

Fair value through net assets/ equity

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through net assets/ equity. Movements in the carrying amount are taken through net assets, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in surplus/deficit. Interest income from these financial assets is included in finance income using the effective interest rate method.

Trade and other receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. Trade and other receivables are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end.

Fair value through surplus or deficit

Financial assets that do not meet the criteria for amortized cost or fair value through net assets/ equity are measured at fair value through surplus or deficit. A business model where the MDA manages financial assets with the objective of realizing cash flows through solely the sale of the assets would result in a fair value through surplus or deficit model.

Impairment

The MDA assesses, on a forward-looking basis, the expected credit loss ('ECL') associated with its financial assets carried at amortized cost and fair value through net assets/equity. The MDA recognizes a loss allowance for such losses at each reporting date. Critical estimates and significant judgments made by management in determining the expected credit loss (ECL) are set out in *Note xx*.

b) Financial liabilities

Classification

The State Department classifies its liabilities as subsequently measured at amortized cost except for financial liabilities measured through profit or loss.

**State Department for Shipping and Maritime Affairs
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Notes to the Financial Statements (Continued)

e) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition. Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- i) Raw materials: purchase cost using the weighted average cost method.
- ii) Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity but excluding borrowing costs.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost. Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of this State Department.

f) Provisions

Provisions are recognized when the State Department has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the MDA expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

State Department for Shipping and Maritime Affairs
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Notes to the Financial Statements (Continued)

g) Social Benefits

Social benefits are cash transfers provided to i) specific individuals and / or households that meet the eligibility criteria, ii) mitigate the effects of social risks and iii) Address the need of society as a whole. The State Department recognises a social benefit as an expense for the social benefit scheme at the same time that it recognises a liability. The liability for the social benefit scheme is measured at the best estimate of the cost (the social benefit payments) that the MDA will incur in fulfilling the present obligations represented by the liability.

h) Contingent liabilities

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

i) Contingent assets

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

j) Changes in accounting policies and estimates

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

**State Department for Shipping and Maritime Affairs
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Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

k) Employee benefits

Retirement benefit plans

The State Department does not provide retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an MDA pays fixed contributions into a separate MDA (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable. Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

l) Related parties

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

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 with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.

n) Comparative figures

In preparing these financial statements, the State Department has elected to apply paragraph 79 of IPSAS 33, which allows for the election by an MDA to present one statement of financial performance, one statement of cash flow, one statement of net assets and the statement of financial position and an opening statement of financial position as at the time of first-time adoption of the accrual basis of accounting.

State Department for Shipping and Maritime Affairs
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o) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2025.

5. Significant Judgments and Sources of Estimation Uncertainty

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

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The MDA based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the State Department. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual value

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

- a) The condition of the asset based on the assessment of experts employed by the MDA.
- b) The nature of the asset, its susceptibility and adaptability to changes in technology and processes.
- c) The nature of the processes in which the asset is deployed.
- d) Availability of funding to replace the asset.
- e) Changes in the market in relation to the asset

State Department for Shipping and Maritime Affairs
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Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 40.

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

State Department for Shipping and Maritime Affairs
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Notes to the Financial Statements (Continued)

6. Transfers from Exchequer

Nature of transfer	Amount recognized to Statement of Financial performance	Amount deferred under deferred income	Total transfers Period ended June 30 th 2025
	Kshs	Kshs	Kshs
Recurrent	614,128,513	-	614,128,513
Development	370,000,000	-	370,000,000
Total	984,128,513	-	984,128,513

7. Other Incomes

Description	June 30 th 2025
	Kshs
Administrative Fees and Charges collected as AIA	2,403,272,107
Total other income	2,403,272,107

8. Employee Costs

Description	June 30 th 2025
	Kshs
Basic salaries of permanent employees	78,116,149
Personal allowances – part of salary	63,556,830
Social security benefit	2,741,045
Total as per Statement of performance	144,414,024
Adjustment -Gratuities	(1,526,390)
Total as per Statement of cashflow	142,887,634

Notes to the Financial Statements (Continued)

**State Department for Shipping and Maritime Affairs
Annual Reports and Financial Statements for the year ended June 30, 2025.**

9. Use of Goods and Services

Description	June 30th 2025 Kshs
Utilities, supplies and services	195,973
Communication, supplies and services	2,002,000
Domestic travel and subsistence	39,122,353
Foreign travel and subsistence	15,075,358
Printing, advertising, and information supplies & services	6,575,883
Rentals of produced assets	26,435,959
Training expenses	18,796,426
Hospitality supplies and services	8,994,362
Specialized materials and services	3,621,720
Office and general supplies and services	19,400,160
Fuel Oil and Lubricants	5,775,700
Routine maintenance – vehicles and other transport equipment	4,878,360
Routine maintenance – other assets	6,333,465
Other operating expenses	22,748,888
Total as per Statement of performance	179,956,606
Add paid pending bills	7,916,645
Less Accrued pending bills	(2,941,264)
Changes in payables (3rd party payments)	1,406,275
Total per Statement of performance	186,338,262

10. Transfers to Other Government Entities

Description	June 30th 2025 Kshs
Kenya Maritime Authority	2,180,787,381
Kenya National Shipping Line	92,000,000
Bandari maritime Academy	774,217,126
Total	3,047,004,507

Notes to the Financial Statements (Continued)

State Department for Shipping and Maritime Affairs
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11. Depreciation and Amortization Expense

Description	June 30th 2025
	Kshs
Property, plant and equipment	2,327,081
Total	2,327,081

12. Cash and Cash Equivalents

Description	June 30th 2025	Opening statement 1 st July 2024
	Kshs	Kshs
Recurrent Account	1,046,364	1
Development Account	-	-
Deposits Account	-	80,786
Deposits account-GCA	7,543	1,333,032
Cash on hand	-	87,920
Total	1,053,907	1,501,739

12 (a) Detailed Analysis of the Cash and Cash Equivalents

Financial Institution	Account number	June 30 th 2025	Opening statement 1 st July 2024
		Kshs	Kshs
Recurrent Account	1000384344	1,046,364	1
Development Accounts	1000516305	-	-
Deposits Accounts	1000384368	-	80,786
Deposits account-GCA	1324907916	7,543	1,333,032
Cash on hand		-	87,920
Sub- Total		1,053,907	1,501,739
Grand Total		1,053,907	1,501,739

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Notes to the Financial Statements (Continued)

13. Property, Plant, and Equipment

	Land	Buildings	Motor vehicles	Furniture and fittings	Computers & ICT Equipment	Work in progress	Total
Depreciation Rate		2-10%	10-16.67%	12.5%	33.3%		
Cost	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Opening Bal as 1 st July 2024							
Additions				6,619,050	4,999,000		11,618,050
As At Jun 2025				6,619,050	4,999,000		11,618,050
Depreciation And Impairment							
Depreciation				827,381	1,499,700		2,327,081
As At 30 th June 2025				827,381	1,499,700		2,327,081
Net Book Values							
Opening Bal as at 1 st July 2024							
As At 30 th June, 2025				5,791,669	3,499,300		9,290,969

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Notes to the Financial Statements (Continued)
Valuation

Items of PPE are valued at Historical cost at the point of recognition in the financial statements. Where historical cost is not available or the item has been acquired at, PPE has been valued at the current operational value which is the amount the MDA would pay for the remaining service potential of an asset at the measurement date.

14. Trade and Other Payables

Description	June 30th 2025		Opening Statement 1 st July 2024	
	Kshs		Kshs	
Trade payables	2,941,264		10,491,645	
Third-party payments	7,543		1,413,818	
Total trade and other payables	2,948,807		11,905,463	
Ageing analysis: (Trade and other payables)	June 2025	% of the Total	1 st July 2024	% of the Total
Under one year	564,145	17%	7,486,588	63%
1-2 years	2,384,662	83%	5,832,493	37%
Total (tie to above total)	2,948,807	100%	11,905,463	100%

15. Provisions

Description	Gratuity Provision	Total
	Kshs	Kshs
Opening balance 1st July	2,607,601	2,607,601
Additional provisions	1,526,390	1,526,390
Total provisions year end	4,133,991	4,133,991
Current Provisions	1,526,390	2,390,171
Non-current Provisions	2,607,601	2,607,601
Total provisions period end	4,133,991	4,133,991

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Notes to the Financial Statements (Continued)

16. Cash Generated from Operations

	<i>June 30th 2025</i>
	Kshs
Surplus for the year before tax	13,698,403
Adjusted for:	
Depreciation	2,327,081
Working capital adjustments	
Increase in payables	(4,855,266)
Net cash flow from operating activities	11,170,218

17. Financial Risk Management

The MDA's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The MDA's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The MDA does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The MDA's financial risk management objectives and policies are detailed below:

i) Credit risk

The MDA has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments. Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the MDA's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the MDA's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the MDA's directors, who have built an appropriate liquidity risk management framework for the management of the MDA's short, medium and long-term funding and liquidity management requirements. The MDA manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the MDA under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

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iii) Market risk

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

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the MDA's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee. The MDA's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day implementation of those policies. There has been no change to the MDA's exposure to market risks or the manner in which it manages and measures the risk.

a) Foreign currency risk

The MDA has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate. The MDA manages foreign exchange risk from future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

b) Interest rate risk

Interest rate risk is the risk that the MDA's financial condition may be adversely affected as a result of changes in interest rate levels. The MDA's interest rate risk arises from bank deposits. This exposes the MDA to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the MDA's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

Financial Risk Management

Sensitivity analysis

The MDA analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

Fair value of financial assets and liabilities

iv) Capital Risk Management

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

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18. Related Party Disclosures

Nature of related party relationships

Entities and other parties related to the *MDA* include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

Government of Kenya

The Government of Kenya is the principal shareholder of the *MDA*, holding 100% of the *MDA*'s equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the *MDA*, both domestic and external.

Other related parties include:

- i) The Parent Ministry - Ministry of Mining, Blue Economy and Maritime Affairs.
- ii) Other SCs and SAGAs - BMA, KNSL & KMA.
- iii) Key management personnel that include the Cabinet Secretary and Accounting Officer.

Notes to the Financial Statements (Continued)

	<i>June 30th 2025</i>
	Kshs
Transactions with related parties	
a) Grants /transfers from the government	
Grants from national govt - Exchequer	984,128,513
Total	984,128,513

19. Events after the Reporting Period

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

20. Ultimate And Holding MDA

The *MDA* ultimate parent is the Government of Kenya.

21. Currency

The financial statements are presented in Kenya Shillings (Kshs) and is rounded off to the nearest shilling.

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19. Appendix

Appendix 1: Implementation Status of Auditor-General's Recommendations

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	Outstanding Pending Bills	The management is making every effort to settle the pending bills within this current financial year	In progress	FY 2025/26
2	Non-compliance with one third of the basic salary rule	The management dealt with the issue	Resolved	FY 2024/25
3	Leave Management	Management resolved this.	Resolved	FY 2024/25



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 Accounting Officer

Date: 4th December, 2025

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Appendix III: Fixed Asset Register

Asset class	Historical Cost b/f (Kshs) Previous Year	Additions during the year (Kshs)	Disposals during the year (Kshs)	Transfers in/(out) during the year	Historical Cost c/f (Kshs) Current Year
Office equipment, furniture and fittings		6,619,050			6,619,050
ICT Equipment		4,999,000			4,999,000
Total		11,618,050			11,618,050

Note: The Fixed Asset Register balance for the FY 2023/24 amounting to Kshs. 122,730,256 has not been included since a valuation has not been conducted to determine the carrying amount of the assets.