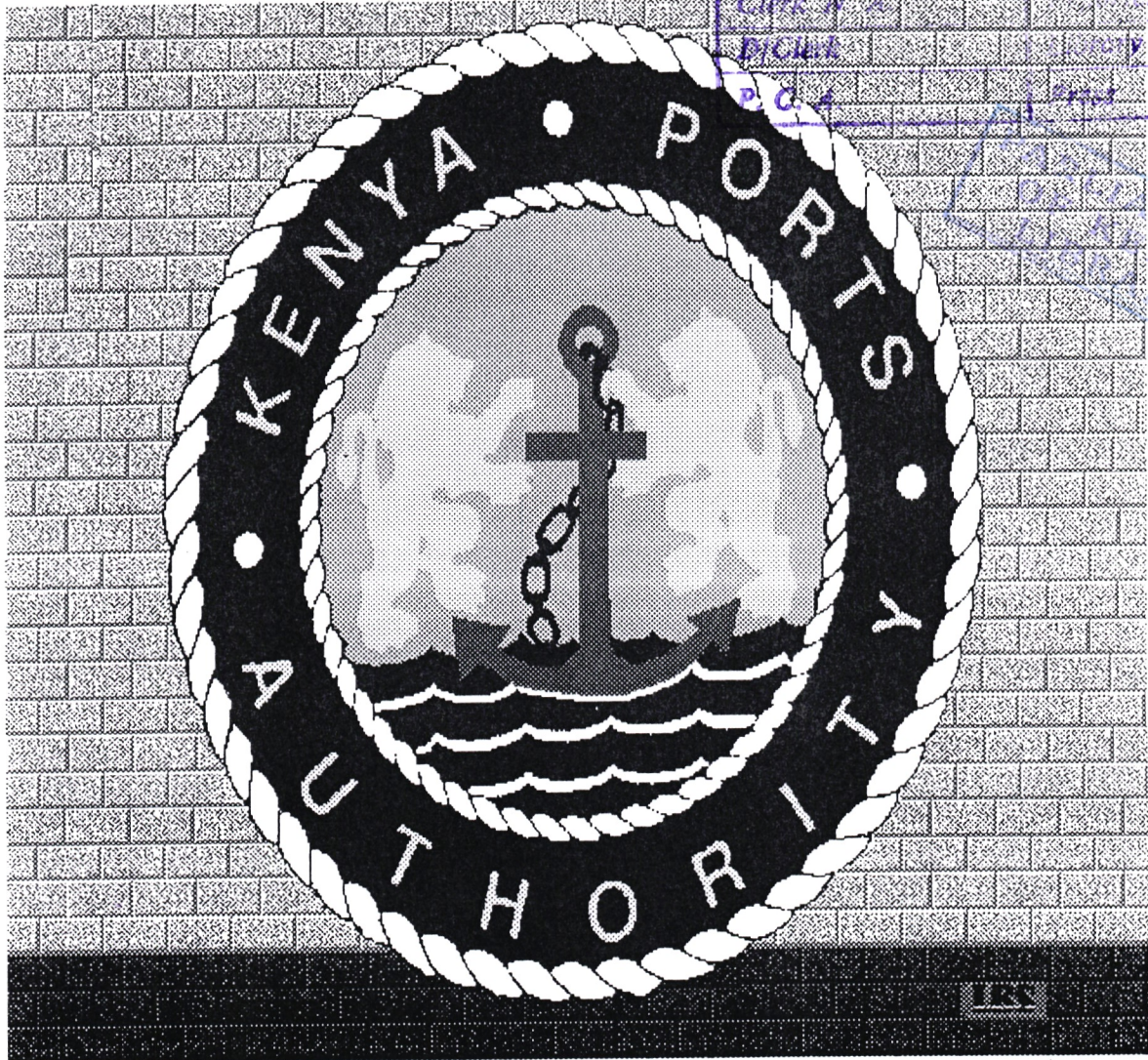


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Annual Accounts And Audit
 Report
 For The Year Ended 30th
 June, 1996

Office of the Chairman



Kenya Ports Authority

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FGM/2/3/02

16th February, 1998

**The Hon. Minister,
Ministry of Transport & Communications,
P. O. Box 52692,
NAIROBI.**

Dear

**KENYA PORTS AUTHORITY ACCOUNTS FOR
THE YEAR ENDED 30TH JUNE, 1996**

On behalf of the Board of Directors of Kenya Ports Authority, I have the honour to present the Statement of Accounts (together with Audit Report) for the period ended 30th June, 1996 in accordance with the provisions of Section 20(3) of Kenya Ports Authority Act, 1978.

In conformity with the provision of S.20 (2) of the same Act, the Statement of Accounts were on 31st October, 1996 submitted to the Auditor General (Corporations) for Audit.

Yours

**(S.S. Manceno)
CHAIRMAN**

Encls:

KENYA PORTS AUTHORITY

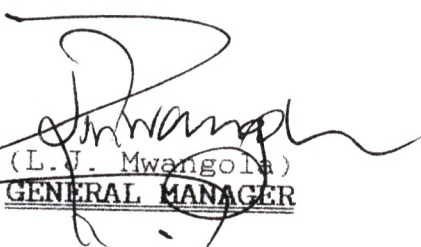
INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED ON 30TH
JUNE, 1996

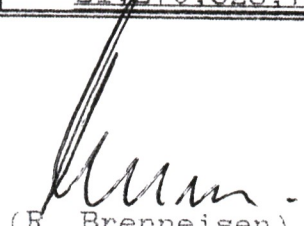
	1995/96 Kshs.	1994/95 Kshs.
A. OPERATING REVENUE		
Marine	569,754,300	483,894,077
Stevedoring	2,066,357,556	2,226,539,272
Shorehandling	2,883,395,804	1,016,885,073
Wharfage	-	1,363,298,792
Storage	1,217,683,806	1,055,647,550
Miscellaneous	1,117,070	20,555,254
Non-Operating Revenue	<u>340,077,724</u>	<u>173,693,743</u>
Total Revenue	<u>7,078,386,260</u>	<u>6,340,513,761</u>
B. OPERATING EXP.		
Marine	484,807,110	549,046,297
Conventional Cargo	1,718,165,608	1,422,294,594
Containerised Cargo	762,428,150	969,870,602
Dry Ports	138,333,419	92,588,882
Administration	2,559,973,442	2,506,136,944
Foreign Currency Loss	<u>4,647,680</u>	<u>310,906,310</u>
Total Expenditure	<u>5,668,355,409</u>	<u>5,850,843,629</u>
Surplus Before Tax	<u>1,410,030,851</u>	<u>489,670,132</u>
Taxation	(648,954,672)	(77,987,392)
Surplus transferred to Distributable Reserves	761,076,179	411,682,740

KENYA PORTS AUTHORITY

BALANCE SHEET AS AT 30TH JUNE 1996

	Notes	1995/96 Kshs.	1994/95 Kshs.
<u>Assets Employed</u>			
Fixed Assets	(2)	23,020,266,225	20,521,481,490
Long-Term Invsts.	(3)	<u>520,853,584</u>	<u>480,026,483</u>
		<u>23,541,119,809</u>	<u>21,001,507,973</u>
<u>Current Assets</u>			
Short-Term Invsts.	(3)	280,000,000	276,330,072
Stocks	(4)	1,604,179,239	1,460,216,064
Debtors	(4)	1,886,029,270	2,234,977,030
Cash & Bank Balances	(4)	<u>(303,443,320)</u>	<u>(73,404,138)</u>
Total Current Assets		3,466,765,189	3,898,119,028
Current Liabilities			
Loans	(7)	477,279,656	421,926,850
Other Creditors		<u>3,350,293,334</u>	<u>2,837,324,953</u>
Total Current Liabilities		3,827,572,990	3,259,251,803
Net Current Assets		(360,807,801)	638,867,225
Other Provisions	(5)	<u>388,592,976</u>	<u>369,846,455</u>
		<u>22,791,719,032</u>	<u>21,270,528,743</u>
<u>Financed By:-</u>			
Distributable Reserves	(6)	3,764,773,191	4,232,537,737
Capital Reserves	(6)	15,296,753,920	12,864,789,016
Loan Capital	(7)	<u>3,730,191,921</u>	<u>4,173,201,990</u>
		<u>22,791,719,032</u>	<u>21,270,528,743</u>


 (L. J. Mwangola)
GENERAL MANAGER


 (R. Brenneisen) MBS
EXECUTIVE CHAIRMAN

**NOTES TO THE ACCOUNTS FOR THE YEAR
ENDED 30TH JUNE, 1996**

1. **ACCOUNTING POLICIES**

(a) **BASIS OF ACCOUNTING**

The Authority prepares its accounts on the historical cost basis of accounting modified to include the revaluation of certain assets.

(b) **REVENUE RECOGNITION**

Revenue and expenditure are accounted for on accrual basis.

(c) **ACCRUALS**

No provision is made for invoices after the year end for expenses relating to the year under review, unless individual amounts exceed Shs. 500,000.00

(d) **FIXED ASSETS AND DEPRECIATION**

Fixed assets are stated at cost or valuation. Depreciation is calculated on the straight line basis at annual rates estimated to write-off the assets over their expected useful lives. The annual rates used are stated below:-

<u>CLASS</u>	<u>RATE (%)</u>
Dredging	2.5
Land & Buildings	2.5
Rail lines	2.5
Roads	2.5
Quays	2.5
Cranes	10.0
Forklift Trucks	10.0

<u>CLASS</u>	<u>RATE (%)</u>
Tractors	20.0
Vehicles	20.0
Tugs/Boats	20.0
Telecom Equipments	5.0
Data Processing Equipment	20.0

(e) **CONVERSION OF FOREIGN CURRENCIES**

The foreign currency items are expressed in Kenya Shillings at the mean rates of exchange ruling at the balance sheet date. Transactions occurring during the year have been converted using the rates ruling at the time the transactions took place. The resulting profits or losses are dealt with in the Income and Expenditure Account.

(f) **BAD DEBTS PROVISION**

The specific bad debts identified as irrecoverable are provided for at the rate of 100%. While a general provision of 5% is made on the balance to cater for the doubtful debts.

(g) **STOCKS OBSOLESCENCE PROVISION**

Stocks have been valued at the lower of cost and net realisable value. A provision of 5% of the stock value at the year end has been made to cater for losses arising from deterioration and obsolescence.

2. Fixed Assets

Details of fixed assets and their cumulative depreciation.

Statement No. 1

Description	1995/96	1994/95
Balance on 1st July, 1995	23,151,684,912	9,466,155,159
Adjustment and W/offs	(372,569,419)	(1,605,630,708)
Revaluation 1995	-	14,226,956,000
Revaluation understated 1995	457,240,897	-
Additions	2,697,461,486	1,064,204,461
Total Assets	25,933,817,876	23,151,684,912
Depreciation on 1st July, 1995	4,938,916,223	3,482,024,966
Adjustments and w/offs	(2,338,881,547)	-
Charge for the year	1,503,664,225	1,456,891,257
Total Depreciation	4,103,698,901	4,938,916,223
Net Book Value	21,830,118,975	18,212,768,689
Work-in-Progress	1,190,147,250	2,308,712,800
	23,020,266,225	20,521,481,489

Most assets were revalued in 1994 on the basis of current replacement cost, subsequent acquisitions have been stated in the accounts at cost.

3. Investments

- (a) Investments are held in Fixed Deposit accounts and Government Bonds whose maturity periods range from three months to seven years. There are also short term investments placed on seven days notice for loan repayment in the next twelve months.

(b) Also included under investments is the cost of the Authority's equity share holding in the following institutions.

	<u>Cost</u>
(i) Kenya National Shipping Line Ltd.	70,023,000.00
(ii) Consolidated Bank of Kenya Ltd.	29,000,000.00

4. Current Assets

(a) STORES STOCKS

These are stated at cost or net realisable value less 5% provision for obsolescence and deterioration.

	30.6.96	30.6.95
	<u>Kshs.M</u>	<u>Kshs.M</u>
Balance as at 30.6.96	1.688.69	1536.12
Less Provision	<u>(84.51)</u>	<u>(75.90)</u>
Net balance	<u>1.604.18</u>	<u>1.460.22</u>

(b) DEBTORS

This balance include bills outstanding in respect of Marine and Cargo handling services rendered to Port Users up to 30th June, 1996. It also includes staff and other debts.

	<u>30.6.96</u>	<u>30.6.95</u>
	<u>Kshs.M</u>	<u>Kshs.M</u>
Cargo	348.03	335.24
Marine	<u>403.62</u>	<u>263.80</u>
Total Trade Debt	751.65	599.04
Less Provision	<u>(95.60)</u>	<u>(69.60)</u>
Net Trade debt	656.05	529.44
Staff Debts	254.15	288.11
Other debts	<u>975.82</u>	<u>1.417.43</u>
Total Debtors	<u>1.886.02</u>	<u>2.234.98</u>

(c) i. **CASH AND BANK**

This balance consists of the following

	30.6.96	30.6.95
	<u>Kshs.M</u>	<u>Kshs.M</u>
Cash at Bank	(321.26)	(93.87)
Cash with Crown Agents	15.51	18.97
Cash at Hand	<u>2.31</u>	<u>1.50</u>
NET BALANCE	<u>(303.44)</u>	<u>(73.40)</u>

ii. **Overdraft facility**

Management sought and was granted authority by the Treasury to negotiate overdraft facilities with National Bank of Kenya. The bank agreed to grant the facilities to the maximum sum of Shs. 800.0 million at an interest rate of 26.5% per annum on the balance drawn.

5. **Provisions**

Provisions have been made to meet contributions to staff Pension and Gratuity Scheme.

	30.6.96	30.6.95
	<u>Kshs.M</u>	<u>Kshs.M</u>
Staff Pension	380.57	357.14
Staff Gratuity	<u>8.02</u>	<u>12.71</u>
	<u>388.59</u>	<u>369.85</u>

6. Reserves as at 30th June, 1996

Statement No. 2

A. GENERAL RESERVES

DISTRIBUTABLE RESERVES	1995/96	1994/95
OPENING BALANCE	4,232.54	5,351.73
PROFIT & LOSS ACCOUNT	761.07	411.69
ADJUSTMENTS	1,228.82(DR)	1,530.88(DR)
TOTAL:	3,764.79	4,232.54
B. CAPITAL RESERVES		
OPENING BALANCE	12,864.79	243.46
REVALUATION OF FIXED ASSETS	2,431.96	12,621.33
TOTAL:	15,296.75	12,864.79

The Capital Reserve was created by a revaluation of assets in 1994.

7. **Loan Capital**

Details of loan capital as at 30th June, 1996 are shown in statement No. 3 below:

LOANS AS AT 30TH JUNE, 1996

Statement No. 3

LOAN	BALANCE AS AT 1.7.95	BALANCE AS AT 30.6.96	PAYABLE 1996/97	OVER 1 YEAR
IBRD LOAN 428-7	5,038,581	-	-	-
IBRD LOAN 865-1	128,371,959	84,585,230	55,356,194	29,229,036
EIB LOAN	415,949,065	314,566,573	46,183,968	268,382,605
NIO LOAN	256,179,586	247,058,448	27,360,528	219,697,920
<u>ON-LENT LOANS</u>				
DUTCH	275,252,427	265,221,642	21,204,139	244,017,503
FRENCH (LOCAL)	674,655,604	583,989,895	61,331,419	522,658,476
BRITISH (TUGS)	182,506,155	178,101,036	9,482,018	168,619,018
BRITISH (CRANES)	77,038,176	75,119,975	4,114,073	71,005,902
BRITISH (PIP)	305,224,609	300,215,234	14,087,371	286,127,863
FRENCH (FOREIGN)	2,249,383,020	2,133,974,427	237,108,270	1,896,866,157
BELGIUM LOAN	25,375,150	24,484,607	1,051,676	23,432,931
ZAMBIA LOAN	154,510	154,510		154,510
	4,595,128,842	4,207,471,577	477,279,656	3,730,191,921

8. **Taxation**

- i. Taxation is charged at the rate of 35% on the profit for the year adjusted for tax purposes

	1995/96	1994/95
	<u>Kshs.M</u>	<u>Kshs.M</u>
Tax for the year	648.95	648.95

The final tax assessment on this Authority's profits will be based on the audited accounts for the year.

ii **Back-tax**

The liability for back-tax for the years 1986-1994 amounting to Shs. 2,269,865,448 was provided for in the accounts. So far Shs 400.0 Million has been paid to the Commissioner of Income Tax in this regard.

9. **Contingent liabilities**

	<u>Kshs.M</u>
1. Claims from Port users	60.0
2. Claims arising from litigation	70.0
3. Mtongwe Ferry Disaster	300.0
4. Cases under arbitration	150.0
5. Container Freight Station	400.0

10. **Profit and Loss Account**

A detailed Profit and Loss Account is attached as appendix "A".1

11. **Cash Flow Statement (c.f. source and application of funds)**

The Cash Flow Statement is attached as "Statement No.4"

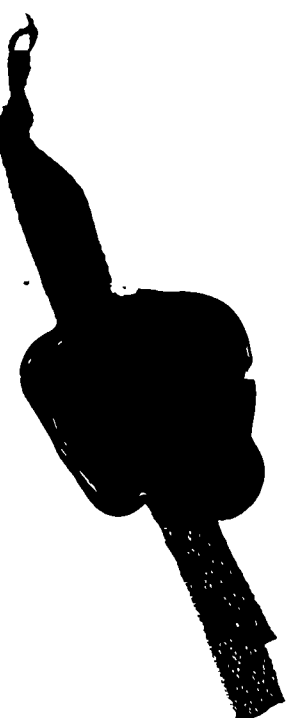
Statement No. 4

CASH FLOW STATEMENT FOR YEAR ENDED 30TH JUNE, 1996.

	NOTE	KSHS.M.	KSHS.M.
Net cash inflow from operating activities	(a)		3,594.0
Return on investments and servicing of Finance			
(Non-operating income)		340.1	
Interest paid Debt Servicing Charges		(208.0)	
Net cash outflow from returns on investments and servicing of Finance			132.1
Taxation paid			(716.7)
Investment activities			
Purchases of fixed assets		(2,747.3)	
Purchase of investment		(44.5)	
Net cash outflow from investing activities			(2,791.8)
Financing			
Repayment of amounts borrowed		(443.0)	
Net cash (outflow) inflow from financing			(443.0)
Decrease in cash and cash equivalents			(225.4)
	(b)		

SUPPLEMENTAL DISCLOSURE OF CASHFLOW INFORMATION

a. NET CASH FLOW FROM OPERATING ACTIVITIES	KSHS.
Operating profit	1,410,030,851
Depreciation	1,503,664,225
Write off	34,262,021
Interest paid	208,115,351
Foreign exchange Movement	4,647,679
Other income	(340,077,724)
Increase in stocks	(143,963,175)
Debtors	348,947,760
Creditors	<u>568,321,187</u>
	<u>3,593,948,175</u>
 b. DECREASE IN CASH AND CASH EQUIVALENTS	
Opening balance 1.7.95	(73,404,138)
Net cash outflow during the year before adjustment for the effect of Foreign exchange movement	(225,391,503)
Effect of foreign rate changes	<u>(4,647,679)</u>
Balance as at 30th June, 1996	<u>(303,443,320)</u>



REPORT OF THE AUDITOR-GENERAL (CORPORATIONS) ON THE ACCOUNTS
OF KENYA PORTS AUTHORITY FOR THE YEAR ENDED 30 JUNE 1996

REPORT OF THE AUDITOR GENERAL (CORPORATIONS) ON THE ACCOUNTS OF KENYA PORTS AUTHORITY FOR THE YEAR ENDED 30 JUNE, 1996

I have examined the accounts of the Kenya Ports Authority for the year ended 30 June, 1996 in accordance with Section 29 (2) of the Exchequer and Audit Act (Cap 412). I have obtained all the information that I required for the purpose of the audit. Proper books of account were kept and the accounts which have been prepared under the historical cost convention as modified by revaluation of certain fixed assets are in agreement therewith and comply with the Kenya Ports Authority Act (Cap 391).

Except for the reservations set out herebelow, in my opinion, the accounts, when read together with the notes thereon give a true and fair view of the Authority's financial position as at 30 June, 1996 and of its surplus and source and application of funds for the year then ended.

1.0 Advances to Kenya Ferry Services - Kshs.319,553,388

As pointed out in my previous year's report, the Kenya Ports Authority started running the Kenya Ferry Services Limited in 1989. The Kenya Ports Authority continued to advance money to the Kenya Ferry Services Limited and such advances rose from kshs.209,390,134 as at 30 June, 1995 to Kshs.319,553,388 as at 30 June, 1996. The advances include Kshs.6,975,000 and Kshs.2,250,000 paid on behalf of Kenya Ferry Services to a private Ocean Cruises Company to acquire 30% shares in the Company and to clear its overdraft respectively. As stated in the previous reports, the Ocean Cruises Company has been dormant and the Authority is unlikely to recover the amount or receive any return from the investment. Besides, the Kenya Ferry Services has been making operational losses and the Authority is unlikely to recover the advances. The de-linking of Kenya Ferry Services from the Authority recommended by Public Investment Committee in its Seventh Report, had not been effected at the date of signing of this report.

2.0 Inland Container Depot - Eldoret

As was mentioned in the previous year's audit report, the contract to build the above depot was awarded to a construction Company for a sum of Kshs.279,681,839 to be completed within a period of 108 weeks with effect from June 1991. It was completed in the last quarter of 1995 at a cost of Kshs.358,778,562 arrived at as follows:-

Building works	Kshs.203,648,851
Civil Works	Kshs. 93,341,454
Consultancy	Kshs. 61,788,257
	<u>358,778,562</u>

Although the project was handed over by the contractor to Kenya Ports Authority in June, 1996, the same has not so far been operational. The Authority has however explained that it now intends to lease the depot to a private operator in conformity

with economy liberalisation. In the meantime the heavy capital investment of Kshs. 358,778,562 remains idle and with no returns to the Authority due to poor and unco-ordinated planning.

3.0 Land Without Title

As stated in paragraph 3.1 of my previous year's report the Authority's Fixed Assets figure in the Balance Sheet included four Dogo Kundu and three Kipevu plots which had cost a total of Kshs.14,802,000 for which the Authority did not have title deeds. The ownership of the plots was still in doubt and the three Kipevu plots were subject of court cases filed by the Authority against the Commissioner of Lands. The recommendation of the Public Investment Committee that the Chief Executive and the parent Ministry follow up the issue of titles with the Attorney General and the Commissioner of Lands did not succeed. In the circumstances, I am still unable to confirm that the value of the plots is fairly stated in these accounts.

4.0 Mtongwe Housing Estate Project

Included in the fixed Assets Balance Sheet figure of Kshs.23,020,266,225 are Kshs.666,189,165 and Kshs. 97,525,989 construction costs and consultancy fees respectively, relating to Mtongwe Housing project commenced on 2 April, 1990. The project contracted at Kshs. 551,862,233 was to be completed by 31 March 1993 but has remained incomplete to date. Despite the Public Investments Committee's recommendation that the Authority recovers liquidated damages now estimated by the Authority at Kshs. 29,728,400, this has not been done. The expenditure has escalated to over Kshs.763,715,155 as at 30 June 1996, or 38% increase over the initial contracted amount. It is evident that the project was ill conceived, has been poorly managed and is a strain to the Authority's resources.

5.0 Container Freight Section - Mombasa

In August 1995 the Authority's Board of Directors awarded six (6) different contracts totalling Kshs. 2,686,864,250 for construction of container freight station in Mombasa and the Authority has subsequently incurred expenditure totalling Kshs. 408,689,858 made up of the following amounts:

Two main Contractors	Kshs. 259,101,901
Consulting Fees & others	" 149,587,957
Total	Kshs. 408,689,858

Besides the expenditure there is a related contingent liability of Kshs. 400 million shown in note 9 to these accounts. The project was not in the year's initial budget and the contracts were entered into without prior detailed feasibility studies particularly with regard to effect on cash flows and expected future returns. There is inadequate documentation of the basis of selection of consultants and contractors suggesting lack of competitive tendering. Further the above contract payments were made without ensuring the matching of payments to the value of work done. Under these circumstances, I am unable to confirm the

propriety of the money so far spent on the project and the amount shown as a contingent liability .

6.0 Purchase of Two Commuter Buses

Included in the assets are two buses registration no. KAD 456M and 465M purchased at a total cost of Kshs.7,169,856 during the year ended 30 June, 1995 but capitalised in the year under review. The Authority Engineer's report indicates that the buses were defective and may not have been new when delivered to the Authority by a vehicle dealer in January 1995. Although the Authority withheld the payment for sometime and the defects were apparently rectified by the supplier by 7 March 1996, I am unable to confirm that the Authority got the full value for the money paid. Clearly the Authority did not receive the new buses it had ordered and specified in tender documents .

7.0 Debtors- Dredging Charges Kshs. 287,231,401

The Balance Sheet Debtors figure include an amount of Kshs.287,231,401 paid to a dredging company in 1992 by the Authority on behalf of the parent Ministry on the understanding that the Treasury would offset the amount against Uganda Compensation and the on lent loans. Although the Public Investment Committee recommended that the matter be solved when the cross debt study is concluded, the debt was still outstanding in Authority's books as at 30 June,1996.

8.0.Unremitted Government Revenue

The Authority collects money for the Government in accordance with provisions of Merchants Shipping Act Cap 389 of the Laws of Kenya. The collections totalled Kshs. 71,567,798 as at 30 June 1996, an amount included in the figure of creditors in these accounts. The Kenya Ports Authority has however explained that it has been waiting for specific instructions on how to remit the collections. The amount of Kshs. 71,567,798 is cumulative since April 1994, the date of the relevant legal notice. It is not clear why the remittance instructions have not been forthcoming.

9.0 Outports Revenue

In outports of Malindi and Kilifi, Ports revenue levied in accordance with second schedule of Kenya Ports Authority Act (Cap 391) is collected by the Customs Department of the Kenya Revenue Authority on behalf of Kenya Ports Authority. Apparently there are no formal arrangements between the two Authorities for the accounting of the collections and no revenue was received by the Kenya Ports Authority during the year under review. Amounts in excess of Kshs.673,851 and Kshs.843,828 collected in the past years from Malindi and Kilifi outports respectively were owing from Customs Department. Further Kshs. 362,457 misappropriated by a former Jetty Superintendent from Lamu outport has not been recovered. Although the Authority has explained that the loss will be written off against the ex-employee's benefits, such dues if any , have not been determined.

10.0 Legal Costs - Kshs.8,239,643

Legal costs for the year totalled Kshs. 8,239,643 (1994\95 Kshs.7,845,277) and additional litigation liability of Kshs.70 million shown in note 9 to these accounts as contingent is likely to arise in the ensuing year. The large litigation charges arise from several wrongful retirements of the Authority's officers by the management since 1994. There were over 30 cases filed in court at the time of signing this report but I understand that the number is likely to increase. Apart from stating that regulations will be complied with, it is not clear what the management has done to check this continuing waste of the Authority's funds.

11.0 Uncollected Wharfage Charges Kshs.14,093,180

Revenue amounting to Kshs. 2,158,358 was received on 15 September, 1993 from a clearing and forwarding firm. The amount was in respect of wharfage charges for two consignments owned by Kenya Posts and Telecommunication Corporation with declared values of Kshs.3,749,757 and Kshs. 104,249,584. An investigation carried out in June 1996 by both the Authority's internal audit and security shows that the declared value of the consignments was incorrect, resulting to an under-collection of wharfage charges. The correct value of the two consignments was Kshs. 37,487,357 and Kshs. 1,042,455,584, values which would have attracted a total of Kshs.16,251,716. Although the Authority has instructed a firm of advocates to recover the uncollected wharfage charges totalling Kshs. 14,093,180, no progress has been made because the firm cannot be traced in the Registrar of Companies and the Directors are unknown. The matter was not reported to the Police until 16 December 1997 after the audit report.



W. K. KEMEI
AUDITOR GENERAL (CORPORATIONS)

16 January, 1998.