REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF KENYA MARITIME AUTHORITY

FOR THE YEAR ENDED 30 JUNE 2017

KENYA MARITIME AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIALYEAR ENDED JUNE 30, 2017

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

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I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background Information

Kenya Maritime Authority (KMA) was established on 21st June, 2004 vide Legal Notice Number 79 of 2004. The Board is in charge of giving strategic direction and the Director General is charged with the day to day affairs of the Authority.

(b) Principal Activities

The mandate of KMA is to regulate, co-ordinate and oversee maritime affairs. Our Vision is to be a "*leading maritime administration transforming Kenya into a globally competitive nation*" and the Mission is to "*ensure sustainable safe, secure, clean and efficient water transport for the benefit of stakeholders through effective regulation, coordination and oversight of maritime affairs*".

Key objectives

The following are the key objectives of KMA:-

(i) To develop an appropriate legal and regulatory framework and partnerships for maritime development.

(ii) To strengthen the Authority's institutional capacity to deliver on its mandate.

(iii) To enhance maritime safety, security and protection of marine and aquatic environment.

(iv) To advocate for the provision of a globally competitive maritime education and training.

(v) To promote maritime research and development.

(vi) To create a conducive environment for supply of competitive and quality commercial maritime services.

(c) Key Management

The Authority's day-to-day management is under the following key organs:

- The Board of Directors
- The Director General
- The Senior Management

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2017 and who had direct fiduciary responsibility were:

No.	Designation	Name
1	Ag. Director General	Mr. Cosmas Cherop
2	Ag. Head of Maritime Safety	Mr. Dave Muli
3	Corporation Secretary & Head of Legal Services	Ms. Jane F. Otieno
4	Head of Commercial Shipping	Mr. John Omingo
5.	Ag. Head of Corporate Support Services	Mr. Edwin Were

(e) Fiduciary Oversight Arrangements

Finance and Human Resource Committee

The committee's activities include;

a) The committee considers and submits for approval by the Board financial estimates of KMA's revenue and expenditure for the following financial year including proposals for funding all projects to be undertaken/completed during the year within the time frames laid down in law;
b) Monitor expenditure and provide quarterly reports to the Board confirming that all expenditure is within the estimates approved by the Board;
c) Developing a human resource policies consistent with the changing needs of KMA.

Technical and Operations Committee

The committee's activities include;

a) Setting targets and negotiating on performance contracts;
b) Reviewing and reporting on performance contract obligations to the Board;
c) Ensuring that KMA's maritime safety and security obligations are effectively discharged;
d) Facilitating, monitoring and overseeing the implementation of the maritime education and training curriculum in various institutions;

e) Enhancing the legal framework;
f) Setting strategic direction for KMA and monitoring the implementation of the strategic plan;
g) Raising the standards of corporate governance on behalf of the Board;
h) Overseeing the development, preparation and implementation of corporate communication policies and recommending management publicity programmes to the Board; and
i) Providing guidance on Corporate Social Responsibility activities and monitoring their implementation.

Audit Committee

The committee's activities include;

(a) Review with the internal and external auditors the co-ordination of audit effort to ensure completeness of coverage, avoid duplication of effort, and promote the effective use of audit resources.
(b) Provides oversight over governance, risk management and control processes;
(c) Review the legal and regulatory matters that may have a material impact on the financial statements, related compliance policies, and reports received from consultants.
(d) Give guidelines on risk management.

Governance and Integrity Committee

The committee's activities include;

(a) to enhance corporate affairs and communication within and outside KMA;
(b) to monitor KMA's compliance with Corporate Governance principles;
(c) to monitor and have an oversight role in KMA's Corporate Social Responsibility activities;
(d) to safeguard the image of KMA by ensuring that ethical governance is upheld at all times;
(e) assist in ensuring that the law is complied with;
(f) ensuring good governance for the KMA Board.

(a) Kenya Maritime Authority Headquarters

P.O. Box 95076 - 80104
White House Building
Next to MSC Plaza
Moi Avenue
Mombasa.

(b) Contacts

Telephone: (254) 041 2318398/9
E-mail: info@kma.go.ke
Website: www.kma.go.ke

(c) Bankers

i. Kenya Commercial Bank
Kilindini Branch
P O Box 90300
Mombasa.

ii. Kenya Commercial Bank
Kisumu Branch
P. O. Box 4117-40100
Kisumu.

iii. National Bank of Kenya
P. O. Box 87770-80100,
Mombasa.

iv. Equity Bank
Moi Avenue Branch
P. O. Box 84618-80100
Mombasa.

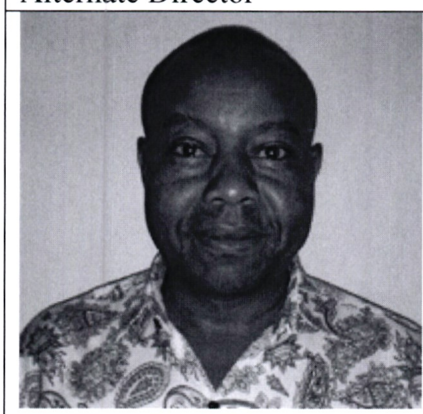
(d) Independent Auditors

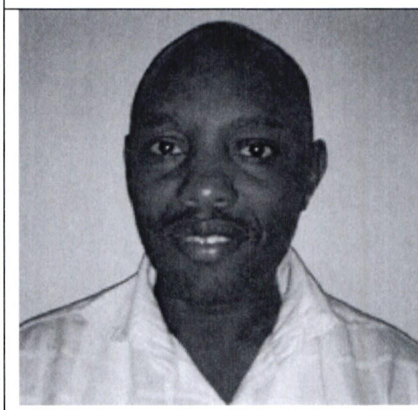
Auditor General
Office of Auditor General
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

(e) Principal Legal Adviser

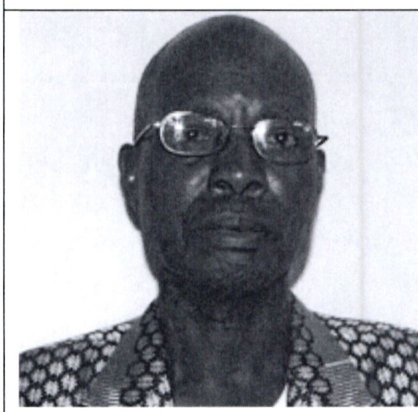
The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

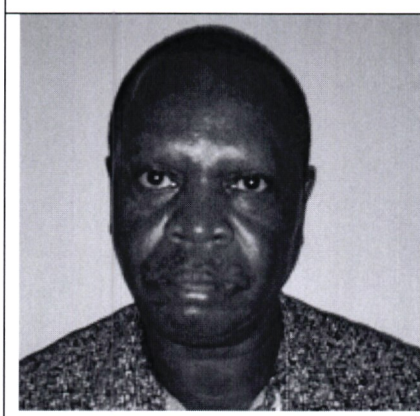
II. THE BOARD OF DIRECTORS

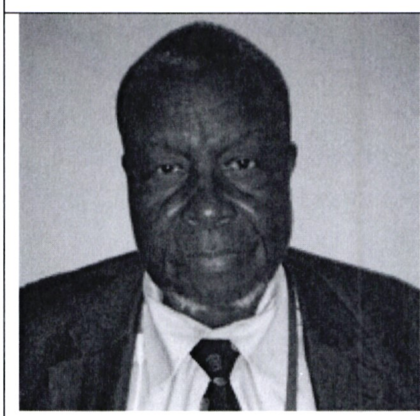
 Mr. Mwalimu Digore Kitambi BSC in Physics & Mathematics	Date of Birth: 20.7.1961 26 years' work experience Appointed on 10th January, 2014 Term expired on 9th January, 2017
 Mr. Shem Nyakutu Alternate Director	Date of Birth: 04.11.1967 Mr. Shem Obongo Nyakutu, Director of Pensions, is the designate representative of the National Treasury. He holds a Master of Science, Bachelor of Arts and Bachelor of Laws.
 Mr Julius Segera Alternate Director Master's Degree in Maritime Administration, World Maritime	Mr Julius Segera born in 1966. He was appointed on 5th April 2016 as the Alternate Director Principal Secretary, State Department of Transport, Ministry of Transport, Infrastructure, and Housing and Urban Development. Mr Segera holds a Bachelor of Arts (Upper Class Division) form the University of Nairobi (1992), a Masters of Arts in Population Geography from University of Nairobi (2003), A Post graduate diploma in Maritime Administration Port / Management form the University of Singapore (2006), A Certificate in Senior Management course from Kenya School of Government (2008), a Master's Degree in Maritime Administration from the World Maritime

University. Master of Arts (Population Geography) University of Nairobi. Bachelor of Arts University of Nairobi. Post graduate diploma (Maritime Administration Port / Management) from National University of Singapore.	University (2009), and a Diploma in Port Security from Galilee Institute (2016). Mr Segera has over 20 years of public sector progressive work experience. In 2003 he became the Principal Shipping Officer/Program Coordinator, Reforms at the Ministry of Transport, while in 2012 he worked as the Undersecretary to the Assistant Director Shipping and Maritime. From 2012 to date Me Segera is the Assistant Director Shipping/Maritime in the Ministry of Transport, Infrastructure, and Housing and Urban Development.
 Mr Charles Mutinda Alternate Director Master of Laws degree from the University of Nairobi, Bachelor of Laws (LL.B) from University of Nairobi.	Mr Charles Mutinda is an Alternate Board of Directors in Kenya Maritime Authority for the Attorney General Prof. Githu Muigai Mr Mutinda hold a Bachelor of Laws (LL.B) from University of Nairobi (2001) and he is currently undertaking a Masters of Law degree at University of Nairobi. Born in 1976 Mr. Mutinda has over 15 years of experience working both in the Public and Private Legal Sector. He started as an Associate Advocate at B. M. Musau & Co. Advocates. He has worked in different capacities in the Office of the Attorney General for as the Head of General Civil Law and Claims Section, Head of Land and Environment Section, Regional Head of the Office of the Attorney General-Mombasa, Ag. Deputy Head Civil Litigation Department and Head of Petitions Section. Mr. Mutinda is currently at the State Council of the Office of the Attorney General & Department of Justice as a Senior Principal Litigation Counsel. In 2010 he was nominated by the Attorney General to attend The Commonwealth Working Group of Senior Officials and Practitioners to take forward the revision of the "Harare

	Scheme" on Mutual Legal Assistance. In 2010/2012 Mr Mutinda was appointed as Counsel representing the Government in all land Acquisition Appeals before the Land Acquisition Compensation Tribunal; 2012/2013 Mr Mutinda was appointed to serve as Assisting Counsel in the Commission of Inquiry into the accident involving aircraft Registration 5Y-CDT AS 350B3 commonly known as the "Ngong Helicopter Commission of Inquiry". In 2013 he was appointed to serve as a member to the "Taskforce on the Audit and Examination of the Delivery of Legal Services to the Nairobi County Government. In his tenure at the Office of the Attorney General Mr Mutinda has successfully defended the Government in Nairobi High Court Civil suit No. 207 of 2002, James Orengo vs. Attorney General &Another. He also successfully defended the Government in Nairobi Civil Appeal No. 137 of 2005, Kenya Seed Company Ltd & 5 others vs. Attorney General and 15 others, etc.
 Mr Cosmas Cherop Ag. Director General CPA (K), M.B.A. (Finance) University of Nairobi, B. A. (ECONOMICS) University of Nairobi, pursuing PhD (FINANCE) at Jomo Kenyatta University of Agriculture and Technology {JKUAT}.	Mr Cherop is the Ag. Director General for Kenya Maritime Authority, born in 1965 with over 30 years' experience in the Financial and Management Sectors. Mr Cherop holds a Bachelor of Arts in Economics 2nd Class Honors from the University of Nairobi (1993), M.B.A in Finance from University of Nairobi (2010) and he is currently pursing Ph.D. in Finance from Jomo Kenyatta University of Agriculture and Technology. In addition Mr Cherop holds certificates in Advanced Management Programme form Strathmore University Lagos Business School and Institute of Certified Public Accountant (CPA) - Kenya

	Mr. Cherop's extensive work experience has been gained from 3 years' experience as a Financial Accountant for the Rift Valley Textile Ltd, 11 years' experience form Kenya Tea Development Agency Ltd as Financial Accountant, Accountant and Factory Accountant. Mr Cherop has had 9 years working experience in Kenya Maritime Authority. During his residency in the Authority, he worked as Head of Corporate Support Services (2008-2015) and as Ag. Director General (2015- to date). Mr Cherop is also a member of the Institute of Certified Public accountants of Kenya.
 Prof. Eric Chenje Mwachiro, Ph.D. PH. D in Hydrobiology-Limnology and Fisheries from Rajasthan Agriculture University Bikaner India. He also holds M.Sc. zoology from Mohanlal Sukhadia University, Udaipur India. He also holds a Master of Business Administration (M.B.A) Jomo Kenyatta University Agriculture & Technology, Nairobi Kenya and a B.Sc. in biology from Mohanlal Sukhadia University, Udaipur India.	Prof. Eric Chenje Mwachiro is an Independent Director and Chairperson of the Audit Committee of Kenya Maritime Authority. Born in 1958 with over 20 years' experience in the Academic, Environmental, Maritime and Agricultural Sectors. Prof Mwachiro holds a Bachelor of Science in Biology from Mohanlal Sukhadia University-Udaipur, India (1986), he also holds M.Sc. in Zoology from Mohanlal Sukhadia University-Udaipur, India (1988) and a Ph.D. in Hydrobiology-Limnology and Fisheries from Rajasthan Agriculture University Bikaner India (1993). Prof. Mwachiro also holds a Masters of Business and Administration (M.B.A. Executive) from Jomo Kenyatta University of Agriculture and Technology- Nairobi, Kenya (2011). Prof. Mwachiro holds a Diploma in Clinical Medicine form Medical Training Center- Nakuru, Kenya (1986), a certificate in Quality Management Systems- Implementation of ISO 9001:2000 and Quality Management Systems- Training of Trainers Course from Kenya Bureau of Standards (KBS)- Nairobi Kenya (2007).

	Prof Mwachiro has 15 years work experience as an Associate Professor at Jomo Kenyatta University of Agriculture and Technology as the Pioneer Chairman of two departments, (Zoology 1995-99 and Medical lab. Sciences 2007-09). Prof. Mwachiro also was the University Coordinator, ADP Programme for Self Sponsored Students and the Internal Quality Auditor for the university. Prof. Mwachiro is currently an Associate Professor at Pwani University in the Teaching, Research, innovations and Administration offices of the University. Prof. Mwachiro is a Member of the Fisheries Society of Kenya, Clinical Officers Association of Kenya, Kenya Medical lab Sciences Board, Western Indian Ocean Marine Science Association (WIOMSA) (Kenya), Kenya Medical Technicians & Technologist Board and holds a Fellowship award from the Commonwealth Fellowship for PhD (1989-1993)
 Major General (Rtd) Anthony Maritim Rob, CBS, EBS, ndc (K) dip. NWC (USA) Director Holds a Diploma in international studies from university of Nairobi. Attended and graduated at the National Defense College Kenya on national security and strategic studies. Authorized to append transfix NDC (K). He is currently pursuing a	Major General (Rtd) Anthony Maritim Rob, CBS, EBS, ndc (K) dip. NWC (USA) is and Independent Board of Directors and the Chairperson for the Technical Operations Committee of Kenya Maritime Authority Board of Directors. He was born in 1954 and has over 40 years of experience in the Military, Naval and Maritime Sectors. In 1976, he trained as a Cadet at the Armed Forces Training Collage Lanet- Nakuru Kenya (1976). He received training as a Midshipman Naval War at the Naval Officer Cadet School Rhode Island- New England USA (1977). He also holds a certificate in Maritime Engineering form India Naval Ship Lonava Shivaji Maharashtra (1982). He also holds a Diploma NWC (NSC) rom Naval War College Newport Rhode Island - New England USA (1991). He received his diploma on National Security and

Bachelor of Laws (LL.B) degree from University of Nairobi. He also holds a Diploma NWC (NSC) From Naval War College (USA).	Strategic Studies form the National Defense Collage, Kenya (1999) and he is authorized to append transfix NDC (K). Major Gen (Rtd) Rob holds a Diploma in International Studies from University of Nairobi (2004). He is currently pursuing a Bachelor of Laws (LL.B) degree from University of Nairobi. In 1994 Major Gen (Rtd) Rob in the rank of Lt Col as CO Tech in the Kenya Navy Base, he was part of the Kenya Navy Ports Authority Technical team that rescued the survivors and removed the dead from the sea bed at Mtongwe during the Mtongwe Ferry Disaster in 1994. In 2001 in the rank of Brigadier and as a Commander Naval logistics, He was in charge of the Salvage operation at the Sabaki Bridge during the Disaster of the Twawfiq and TSS Busses that plunged into the river where the naval divers, Kenya Navy Dockyard, CIVICON Engineering and KPA equipment were central in the Salvage. Major Gen (Rtd) Rob has received Notable awards such as Moran of Golden Heart (M. G.H.) and Chief of Burning Spear (C. B. S.).
 Mr. Ismail Said Mboya, Director MSc. Degree in Maritime studies World Maritime University, Malmo Sweden. Post graduate diploma in Port and Shipping Administration from University	Mr Ismail Said Mboya, Chairperson for the Finance and Human Recourse Committee of Kenya Maritime Authority Board of Directors was born in 1946 and has been in the Maritime Sector for 47 years. He holds a Diploma with Distinction (A) in Port Management as Stevedoring form Kipevu Ports 7 Cargo Handling Training School (1975), a Diploma with Distinction (A) in Port Management and Administration form State University – (RUCA) Antwerp (in cooperation with APEC)-Belgium (1991) and holds a Diploma in Maritime Studies from Bandari College (1984). In 1988 Mr Mboya received is Post graduate diploma in Port and Shipping Administration from University of Wales Institute of Science & Technology – UWIST-(UK) and received his

of Wales Institute of Science & Technology – UWIST-(UK). Diploma in Maritime Studies from Bandari College, Diploma in Port Management and Administration from State University (RUCA) Antwerp (in cooperation with APEC) –Belgium and Diploma in Port Management and Stevedoring from Kipevu Ports 7 Cargo Handling Training School.	Master's Degree in Maritime studies from World Maritime University, Malmo Sweden (1994) Mr Mboya has 3 years working managerial experience form Inland Container Deport manager (ICD- Kisumu) and Regional Logistics Center LTD and Senior Management Consultant (ICD-Mombasa). Mr Mboya has 12 years of experience working at the Port at water front- stevedoring (Ports and Shipping) at Kalinin Port, Mombasa. He has had over 20 years teaching experience as a trainer, lecturer, Course Director and Curricula developer in; Bandari Collage- Mombasa Kenya, Makerere University- Kampala Uganda, Jomo Kenyatta University of Agriculture and Technology (JKUAT) – Mombasa Kenya, KESRA Customs- Mombasa Kenya and Maritime Institute- Mombasa Kenya.
 Ms. Malika Omar, Director Bachelor of Science in International Business Administration from United States International University Africa, Nairobi Kenya.	Ms. Malika Omar is an Independent Board of Directors and Chairperson of the Governance and Integrity Committee of Kenya Maritime Authority. Born in 1976, Ms. Omar is a dynamic and highly accomplished Shipping and Trade Finance Professional with over 13 years of experience with proficiency in shipping procedures, international economic and other international trade areas both in the Public and Private Sectors. Ms. Omar holds a Bachelor of Science in International Business Administration from United States International University Africa, Nairobi Kenya (2001), She holds an Diploma and Advanced Diploma in Shipping from the Institute of Chartered Shipbrokers- London UK (2012 & 2013 respectively). Furthermore Ms. Omar holds an Advanced Diploma in Business Information Systems from Association of Business Executives- London UK.

	Ms. Omar has 10 years working experience at Dubai Bank (K) Ltd as an Assistant to trade Finance Officer and advanced to the role of Trade Finance Officer and later as head of Operations. Currently Ms. Omar is the Managing Director of the Modern Maritime Services Ltd.
 Ms. Agnes W. Ndwiga, HSC, Director Masters (MSC) in Development Finance (Reading University, UK), Bachelor of Commerce (University of Nairobi). Currently pursuing a PHD in Development studies. 20years experience in the finance industry.	Ms. Ndwiga, born in 1962, is an Independent Board member at Kenya Maritime Authority. Holds a Bachelor of Commerce- Business Administration for University of Nairobi (1987) and a Masters in Science (MSC) in Development Finance from Reading University UK (2009). She is currently pursuing a PHD in Development studies. Ms. Ndwiga has 20years experience in the Finance Sector with extensive business development skills and enterprise in structured products and solution delivery. She also holds expert negotiating and influencing skills mainly in the corporate, public and government sectors. Ms. Ndwiga is also a Board Member of the Kamama High School, she is a Convener of financial inclusion and access in Embu County and a Financial Advisor of the Embu Development Forum. MS. Ndwiga is a member of the East Africa Enterprise Network (EASEN), Kenya Women Financial Trust and Embu Professionals Development Forum (EDF). Ms. Ndwiga's extensive work experience include 7 years with Barclays Bank as a Corporate Analyst, Assistant Branch Manager and Product Manager. She also holds 3 years' experience with ABN AMRO Bank as a Senior Relationship Manager (Business Development & Global Transaction Services) and 3 years of experience as Business Unit Manager with Exxon Mobil (K) Ltd. Ms. Ndwiga has been

	working with Equity bank for over 20 years previously as a Senior Manager, Business Growth & Development and is currently the General Manager of Corporate and Public Sector Banking with Equity Bank.
 Ms. Jane F. Otieno MBA Strathmore University Corporation Secretary & Head of Legal Services	Mrs. J. F. Otieno joined the Authority on the 10th January 2017 as the Corporation Secretary and Head of Legal Services. She has previously worked in the same capacity in various organizations for over 29 years. She held other international positions as Vice-Chair– Legal Affairs – Telematics Co-operative Universal Postal Union. Mrs. Otieno has an MBA from Strathmore University Nairobi, Kenya. Mrs. Otieno is also a member of WOMESA, the Federation of Women Lawyers of Kenya, Law Society of Kenya, Institute of Certified Public Secretaries, Notary Public and Commissioner for Oaths.

III. MANAGEMENT TEAM

1. Mr. Cosmas Cherop – Ag. Director General	**RESPONSIBILITY**
 Bachelor of Arts, MBA (Finance), CPA (K)	Responsible for setting and executing the overall business strategy for Kenya Maritime Authority (KMA) and translating Board and Shareholder mandates to the business and representing Management in the board. The position ensures that the authority meets its strategic objectives to achieve its overall goals.
2. Capt. Dave N. Muli–Ag. Head of Maritime Safety 	Responsible for overseeing and implementing Port State Control, Flag State Implementation duties, pollution prevention and control, search and rescue, receiver of wrecks, casualty investigation and development of ship construction standards and ensuring compliance.
3. Mr. John Omingo – Head of Commercial Shipping  Bachelor of Ed (SC), MSC (Shipping Admin.) Post Graduate Diploma in Transport Management	Responsible for coordinating, regulating and overseeing the orderly development and optimal provision of commercial maritime services in the country. Responsible for liaising with maritime organization / institutions on commercial matters of national, regional and international and conduct public awareness campaigns on the carriage of goods by sea. Ensuring the regulation of commercial maritime services in the country.

4. Ms. Jane F. Otieno-Corporation Secretary & Head of Legal Services 	Giving legal advice to the Board and the Authority, legal compliance, corporate governance, making administrative arrangements for the board, preparation of board papers, minute taking and custody of Board minutes.
5. Mr. Edwin Were-Head Corporate Support Services 	In charge of all the Corporate support service. This include, Finance and Accounting, Human resource, ICT and Administration functions.

IV. CHAIRMAN'S STATEMENT

The Office of the Chairman of the Board is pleased to present to you the annual financial report for the year 2016/2017, prepared pursuant to the Public Finance Management Act 2012 and the Kenya Maritime Authority Act 2006 in line with Public Sector Accounting standards. The report reflects the Authority's performance, during the stipulated period and is in line with the functions and objectives as stipulated in the Kenya Maritime Authority Act and the Strategic plan.

At Kenya Maritime Authority we are committed to be a leading maritime administration, transforming Kenya into a globally competitive nation in line with our Corporate Strategic plan, and Kenya's Vision 2030.As a Maritime Administration, we are regulated not only by our national legislations, but also International Treaties as acceded to from time to time by the Government of Kenya upon promulgation or tacit acceptance from the International Maritime Organization.

Our Mission to ensure sustainable, safe, secure, clean and efficient water transport for the benefit of all our stakeholders is achieved through frequent engagement with our stakeholders at all levels.

KMA in the financial year 2016/2017 accomplished major milestones in line with its mandate under the Merchant Shipping Act. Below are some of the milestones:

1. Purchased and installed marine communications equipment for Mombasa, Lamu and Kisumu Search and Rescue Centre.
2. Inspection of vessels in the littoral and inland waters to ensure safety of life at sea;
3. In a bid to domesticate International Conventions that Kenya is a party to, several Regulations have been drafted;
4. Formulation of a land- based educational curriculum for the shore- based human resource in the maritime industry; and
5. Carried out study to unlock the potential of Lake Victoria and Turkana
6. Acquired land to set up Search and Rescue centres in Kisumu and Kwale.
7. Starting the construction of the KMA headquarters;

Looking into the future we are working to strengthen our capabilities by enhancing our surveillance in the waters, to ensure safety and security in the waters, in collaboration with other government agencies.

We have partnered with educational institutions to build a qualified credible workforce, recognized in the specialized Maritime world in which we operate in.

Kenya Maritime Authority continues to participate and facilitate stakeholder participation as highlighted by the several workshops, conferences and sponsorships undertaken during the period.

CHAIRMAN
BOARD OF DIRECTORS
KENYA MARITIME AUTHORITY

V. REPORT OF THE DIRECTOR GENERAL

I am pleased to present to you the annual financial report for the year 2016/2017, prepared pursuant to the Public Finance Management Act and the Kenya Maritime Authority Act in line with international standards. The report reflects the Authority's performance, during the stipulated period and is in line with the functions and objectives as stipulated in the Kenya Maritime Authority Act and the Strategic plan.

At Kenya Maritime Authority we are committed to be a leading maritime administration, transforming Kenya into a globally competitive nation in line with our Corporate Strategic plan, and Kenya's Vision 2030.

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Our Mission to ensure sustainable, safe, secure, clean and efficient water transport for the benefit of all our stakeholders is achieved through frequent engagement with our stakeholders at all levels.

KMA in the financial year 2016/2017 accomplished major milestones in line with its mandate under the Merchant Shipping Act as outlined herein:

1. Construction of KMA Headquarters

KMA has been working towards acquiring property on which to construct the KMA headquarters building. To this end, it acquired land in Mbaraki and on 24th February, 2017, a ground breaking ceremony to mark the beginning of the construction was undertaken. This will see to it that KMA offers better services to its stakeholders by housing all the needed human resource.

2. Safety of Life at Sea

With regards to safety of life at sea, the Authority's vessel inspectors, embarked on the inspection of all boats in littoral and inland waters in a bid to ensure that boats plying these waters are fit and can safely be used. The Financial year 2016/2017 performance contract target of 138 ships on inspection of convention and non-convention eligible ships calling into the port of Mombasa was surpassed as 149 ships were inspected. Under flag state implementation the Authority contracted to inspect 8,200 vessels which was surpassed as 8,227 vessels were inspected during the four quarters of the year.

However, the Authority faces the challenge of lack of enforcement mechanisms which is vital after inspection to ensure continual compliance.

KMA has also undertaken major sensitization campaigns on the use of life jackets in ensuring safety of life at sea both in Mombasa, Kisumu, Lamu, Turkana, Chinga dam, Ruiru dam among others. The Authority's RMRCC instructors also conducted GMDSS and other radio based training for seafarers and other stakeholders to ensure prompt response to incidences at sea and inland waters.

3. Legislation

In the course of the financial year, the following Regulations emanating from the Merchants Shipping Act were drafted in a bid to implement International Conventions:

a) Merchant Shipping (Seafarer Medical Examination and Certification) Regulations 2016;
b) Merchant Shipping (Minimum Safe Manning) Regulations 2016;
c) Merchant Shipping (Training and Certification) Regulations 2016;
d) Merchant Shipping (Maritime Labour) Regulations 2017.

4. Land- based Education Curriculum

KMA has come up with a curriculum for the training of shore- based personnel in the maritime industry. This is to ensure high standards are maintained in service delivery as a way of enhancing trade and making Kenya a maritime transport hub.

Looking into the future we are working to strengthen our capabilities by enhancing our surveillance in the waters, to ensure safety and security in our waters, in collaboration with other government agencies.

We have partnered with educational institutions to build a qualified credible workforce, recognized in the specialized Maritime World in which we operate in.

Kenya Maritime Authority continues to participate and facilitate stakeholder participation as highlighted by the several workshops, conferences and sponsorships undertaken during the period.

Cosmas Cherop (Mr.)
AG. DIRECTOR GENERAL

VI. CORPORATE GOVERNANCE STATEMENT

In accordance with the Board Manual and code of best practice, the Authority has adopted high standards and applies strict rules of conduct, based on the best corporate practices. As part of this commitment, the Board adheres to good corporate governance by embracing the following principles:

1. High standards of ethical and moral behaviour
2. Acting in the best interest of the Authority.
3. Remuneration and promotions done fairly and responsibly.
4. Recognizing the legitimate interests of all stakeholders
5. Ensuring that the Authority acts as an exemplary good corporate citizen.

Directors responsibilities include determining and reviewing the Authority's strategic direction and operational policies; establishing goals for management and monitoring the achievement of these goals. The Board also reviews and approves the Authority's strategic and financial plans respectively.

The Board conducts an annual self – evaluation process to measure its own performance, to ensure that it is constantly adhering to the objectives and mandate of the Authority. The latest Board evaluation was conducted by S.C.A.C on the 27th of May, 2016; the next evaluation is scheduled for the 15th of September, 2017.

The Director General is accountable to the Board for the management of the Authority as prescribed in the Act and more specifically in the Board manual and code of best practice.

The Board monitors the performance of the Authority's senior Management by reviewing the financial performance on a quarterly, half-yearly and annual basis.

The Performance contract and the strategic plan are key documents towards fulfilling these principles and are anchored in the Kenya Maritime Authority Act and appurtenant regulations, Treaties and Conventions which Kenya has acceded to, State Corporations Act among several other legislations in Kenya that the Authority is subservient to.

The Board shall act in the best interest of the Authority and uphold the fiduciary responsibilities and duty of care. This involves not disclosing confidential information, avoiding real and perceived

VI. CORPORATE GOVERNANCE STATEMENT (Continued)

Conflicts of interest, and favouring the interests of the Authority over other interests. The Board members will act honestly and in good faith so as to create a culture built on principles of integrity accountability and transparency.

There is a Corruption Prevention Policy in place that reiterates the Anti- Corruption and Economic Crimes Act, Act No. 3 of 2003 with regards to issues of conflict of interest. The Authority in turn has in place two separate Conflict of Interest Registers- one for the Board and the other for members of staff.

Board Structure

The Board presently has five (5) independent Directors appointed in accordance with section 6 (1) d of the Kenya Maritime Authority Act and representatives of the Government as per section 6 (1) b of the Kenya Maritime Authority Act. The members have diverse qualifications and capable of leading the Authority in the execution of its mandate.

KMA currently does not have a substantive Chairman as the previous Chairman- Mr. Mwalimu Digore Kitambi term expired in January 2017.

Directors terms of appointment to office are governed by Part III of the Kenya Maritime Authority Act, State Corporations Act and Executive order no. 7 as detailed in the *Mwongozo*; Code of Governance for state Corporations 2015. There is also a Board Charter in place which is fashioned on the Mwongozo Code to regulate the conduct of Board business.

The removal of a Board member is governed by Sect 6 (2) of the State Corporations Act.

To assist the Board discharge its responsibilities, the following committees are in place:

1. Technical and Operations committee
2. Finance and Human Resource Committee
3. Governance and Integrity Committee
4. Audit Committee.

VI. CORPORATE GOVERNANCE STATEMENT (Continued)

All the Board members have undergone the compulsory induction training by the State Corporations Advisory Committee (SCAC). In addition, all Directors are members of the Institute of Directors and have all been trained in Good Corporate Governance. The Directors are remunerated as per prevailing government circulars and official directives.

There were 22 Board meetings conducted in the 2016/2017 financial year.

Attendance of Board Meetings

NO.	NAME	TYPE OF DIRECTOR	NUMBER OF MEETINGS ATTENDED
1.	Mr. Mwalimu Digore Kitambi	Chairman (Term expired in Jan, 2017)	16
2.	Major Gen (Rtd) Anthony Rob	Independent	22
3.	Mr. Ismail Mboya	Independent	20
4.	Ms. Malika Omar	Independent	21
5.	Prof. Chenje Mwachiro	Independent	22
6.	Ms. Agnes Ndwiga	Independent	15
7.	Mr. Charles Mutinda	AG's Alternate	20
8.	Mr. Julius Segera	PS Alternate	21
9.	Mr. Shem Nyakutu	Treasury Alternate	19

The Management has a Management Committee that handles all the operational matters of the Authority and puts in place several other committees to handle Licensing, procurement, public relations or as the need arises.

The Chairman and the Chief Executive Officer (the Director General) have separate and roles; the Chair is responsible for leading the Board in the discharge of its duties while the CEO is responsible for implementing the strategic plan of the Authority.

CS - Mrs. Jane Florence Otieno
CORPORATION SECRETARY
BY ORDER OF THE BOARD.

VII. MANAGEMENT DISCUSSION AND ANALYSIS

The Authority Operational and Financial performance

Kenya Maritime Authority (the "Authority") was established through Legal Notice No.79 of 2004 to regulate, co-ordinate and oversee maritime affairs in Kenya. To strengthen Kenya's maritime administration, Parliament enacted the Kenya Maritime Authority Act in 2006.

The Authority's Vision is"*To be a leading maritime authority transforming Kenya into a globally competitive nation*" and its Mission Statement is "*To ensure sustainable safe, secure, clean and efficient water transport for the benefit of stakeholders through effective regulation, coordination and oversight of maritime affairs in Kenya.*"

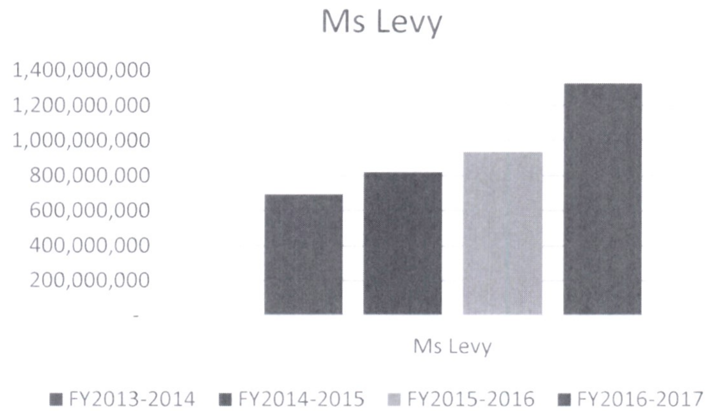
The Authority has four departments namely; Corporation Secretariat & Legal Services, Maritime Safety, Corporate Support Services, and Commercial Shipping, each of which is under the leadership of a Head of Department and the Directorate. The Directorate directs the Authority's entire operations and is headed by the Director-General who is also the Chief Executive Officer of the Authority.

The Maritime Safety and Commercial Shipping divisions are the core divisions of the Authority and are charged with the responsibility to regulate maritime logistics services and shipping by undertake port state and flag state inspections of ships respectively. The Corporation Secretary and Legal Services provide legal and policy guidance and advice to the core divisions and the Corporate Support Services Division provides corporate support services to the Authority. The Corporate Support Services Division facilitates the other departments in the delivery of their responsibilities and performance of their duties by providing finance and administrative support.
The four branches in Kisumu, Lamu Island, Lodwar and Baringo are now operational. The County offices will also serve as Search and Rescue Coordination sub-centres to help in coordination of search and rescue operations for any maritime and inland waters casualties and focal points for information sharing on issues relating to water transport.

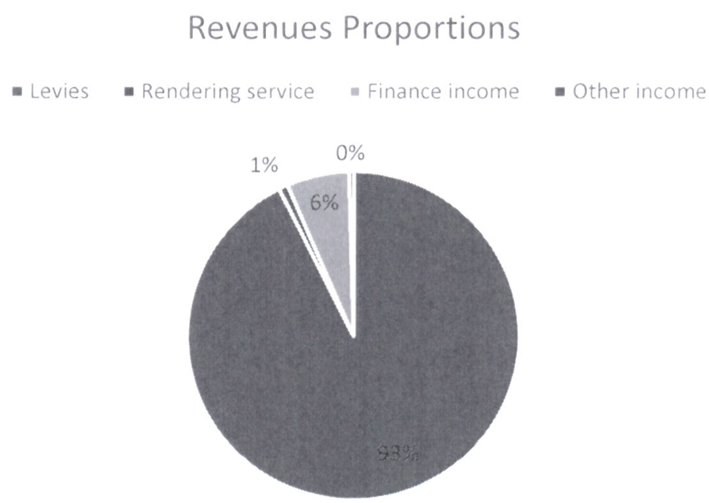
During the 2016-2017 financial year as at 30th June 2017, the Authority was able to collect **Kshs 1,434,333,064** being **Kshs 1,327,603,245** from MS Levy, which is the main source of Income, there was no support in terms of Government grants, and the Authority collected an additional **Kshs 106,729,819** from other source of income which include boat Surveys, licence fees and other

VII. MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

miscellaneous income. This was 30% up from last financial year due to change in Merchant Shipping Levy business rules during the year.



The Authority projects 7% growth in the subsequent year, this is based on expansion of the port and efficiency that will be brought about by the new railway system leading to increase in volume of import and export cargo which is the basis of charging MS Levy.



The main challenge is the unpredictability of the economic outlook which would affect the level of business activity in the country. This would have an effect on the level of trade which would have a significant impact on the import-export trade.

Authority Compliance with Statutory Requirements

The Authority operate under the following key statues, KMA Act, PFM Act, Income Act and Public Procurement and Asset disposal Act among other statues. KMA management have tried their level best

VII. MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

to ensure that the Authority complies with all the relevant sections of these statues. During the year KMA was subjected to KRA Audit as per the Income Tax Act and issues raised were adequately addressed.

Key Projects and Investment Decision the Authority is Planning/Implement

During the four quarter of the financial year the Authority planned for the following project. Status and financing arrangement have been indicated accordingly.

Project	Total project Cost	Total expended to date	Completion % to date	Sources
CONSTRUCTION OF KMA HQS	1.8B	**233.4M**	2%	KMA
MULTINATIONAL LAKE VICTORIA COMMUNICATION & TRANSPORT PROJECT	895.8M	**0**	0%	AFDB & KMA
INTERGRATED COASTAL SECURITY SURVEILANCE SYSTEM	200M	**0**	0%	IMO/DENMARK/GOK
PATROL BOATS MSA, KSM TURKANA	50M	**0**	80%	KMA/GOK
GMDSS SYSTEM	14M	**14M**	100%	KMA/GOK
PURCHASE FOR MOTOR VEHICLE	13M	**13.8M**	100%	KMA/GOK
CONSTRUCTION OF KISUMU OFFICE	12M	**0**	100%	KMA/GOK
LAND FOR SAR	80M	**21.1M**	30%	KMA/GOK
ERP 2016 Upgrade	12.5M	**2.2M**	50%	KMA/GOK
Digitization	6M	**0**	80%	KMA/GOK
Server Virtualization & storage	42.5M	**12.1M**	100%	KMA/GOK

Most of these projects have been and will be financed from internal sources and for those which are donor funded relevant contracts have been signed as commitment to avail funds.

Major risks facing the Authority.

For the year under review there are no major risk that the Authority is facing.

Material arrears in statutory /financial obligation

The Authority is in arrears of settlement of the 90% surplus made as per the PFM Act. The Management are in discussion with National Treasury on the best way forward since the surplus made was approved by Treasury to be utilized for Development projects.

Financial probity and serious governance issues

During the year there are no major governance and audit issue raise by the Audit Committee, external auditor or national Government.

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

The Authority is committed to carrying out its activities and affairs in a socially responsible, sustainable and meaningful way, taking into account ethics, the environment and society at large. The Authority seeks to make positive contributions to communities through financial support and employee involvement.

During the financial year 2016/2017 the Authority committed Kshs. 19.7 million in its entire CSR activities countrywide. Priority was given to activities pertaining to education, health, community involvement, environmental protection and sports promotions in line with the CSR policy as outlined below:

Education

Kenya Maritime Authority is passionate about learning and has contributed extensively to support educational activities, projects, programmes and initiatives aimed at sensitizing and ensuring Kenyans in all counties are sensitized and mentored on available career opportunities in the maritime sector.

During the financial year, the Authority supported the construction of one classroom, two toilets and desk furnishing for both Muungano Primary School and Burani Girls in Kwale County. This has tremendously changed the lives of the entire school in which learning was conducted in a challenging and hazardous environment due to lack of requisite social amenities. Through the aforesaid infrastructural support, the Authority contributed towards an improved educational environment for local communities to promote conducive learning, motivate pupils and build self-esteem in learners from needy communities. This is projected to go a long way in enabling learners in the local needy communities to achieve their educational goals.

Furthermore, the Authority empowered the community through sponsorships in various programmes like the Technical and Vocational Education and Training Authority (TVET) conference aimed at promoting technical skills development in the country in all areas, the maritime sector, not being an exception. The TVET had initially partnered with the Authority in the development of the National Seafarers curriculum. Additionally, KMA played a major role in empowering 20 Beach Management Unit (BMU) members from Chinga, Ruiru and Masinga dam by providing life skill maritime training on swimming, diving and lifesaving skills. This will go a long way in helping the BMUs be ambassadors of water safety in their communities, educate other community members as well as instil

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING (Continued)

a water safety culture in their communities. The BMUs have provided tremendous support within the water bodies especially in rescue operations during water related accidents.

The total funding channelled to education was Kshs. **11.5million.**

Health

The Authority's health initiatives are focused on improving health standards of the beneficiaries in the country. The contributions are aimed at promoting the Sustainable Development Goals on ensuring healthy lives and promoting well-being for all ages and vision 2030 under the social pillar.

This year's beneficiaries included:-

i. The Cerebral Palsy Foundation which is a non-profit organization that provides complete rehabilitation program and special needs education for children with varied special needs. To this end, the Authority donated the following equipment; Therapy staircase, Trade mill, Pulley system, Static cycle, Walking aids (rollator) Walking aids (three leg walking stick with adjustable height), Weights 1 LB, Weights 2.5 LB, Weights 5LB, Spiked therapy ball, Branded round neck t-shirts for staff and the children at the Tudor cerebral palsy centre, Painting of the room with KMA colours.

ii. The Authority participated and donated in the Annual Mater Heart run program aimed at supporting children from needy families who are unable to afford cardiac treatment. Employees of KMA took part in the Mater Heart run to help raise funds for the needy children's heart surgeries around the country. It was reported that at least 18,439 children benefited from the program and the Authority is pleased to have touched a child's heart in the initiative.

KMA staff participating in the annual matter heart run

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING (Continued)

iii. The annual diabetes walk was supported by the Authority through employee involvement and contribution towards the walk aimed at creating awareness and on diabetes through free community and soliciting funds to aid in free community medical camps, training of health care professionals, lay educators and children with diabetes.

During the year, the Authority provided funding of Kshs. **2.5million** towards health activities.

Community Involvement

The Authority is committed to encouraging employee's involvement in the community service, supporting projects, activities and events within the community and seeking innovative ways to perform its social responsibilities.

During the financial year, the following community activities were undertaken:

i. CSR life jacket program as follows;

a) Support of 1,050 life jackets were distributed in various parts of the country including; Baringo, Turkana, Naivasha, Lamu, Kisumu, Kilifi and Kwale aimed at promoting maritime safety and security.

The Authority donated 200 life jackets to Beach Management Units, Lamu.

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING (Continued)

b) The Authority supported with 100 life jackets to Mulukoba and Rudacho beach on Lake Victoria which borders Uganda to ensure safety of life within inland water regions.

ii. When the nation was hit with drought in various places, the Authority supported the residence in the hard hit areas of Kwale and Kilifi counties with food stuffs.

iii. Donation of one 15 HP outboard engine to the Chinga beach management unit rescue boat and solar flood lights to assist users of the dam navigate through safely at night.

iv. The Authority contributed towards the world spinabifida and hydrocephalus day.

v. The Authority visited Shimo la Tewa juvenile prison and donated stationery and other items.

In total, the Authority funded community activities amounting to Kshs. **3.7 million.**

Environmental Protection

The Authority is be committed to its environmental policy and has supported activities geared to prevention of pollution, protection and rehabilitation of the environment including the marine environment.

The following environmental activities which were supported by the Authority:

i. Employee involvement and contribution towards the Kenya Wildlife Service beach clean-up exercise. The Authority facilitated this initiative with 288 bottles of water.

KMA staff involved in beach clean-up exercise

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING (Continued)

ii. The Authority participated and supported the eco-ethics "plant one tree in an hours challenge" with bottled drinking water.

iii. The Authority's staff participated in the major clean-up of Likoni area organized by Kenya Ferry Services Limited and the annual World's Oceans day. The Authority facilitated the exercises with bottled drinking water.

The environmental activities funded by the Authority amounted to **Kshs 0.36 million.**

Sports promotion

The Authority supports sports events including those in the maritime sector in the bid of nurturing talent among the youth as well as enabling Kenya's sportsmen/ women achieve their goals while marketing the Authority.

In the financial year 2016/2017 the projects funded totalled to Kshs. 1.5 million.

During the financial year, the following activities were undertaken:

i. KMA supported the Tong-IL-Moo-Do International martial arts championships with 288 bottles of drinking water.

ii. The Authority supported the Watoto Soccer Awards (WASA) an annual youth festival that revolves around a series of tournaments and gala award ceremony with 720 bottles of drinking water.

iii. The Authority supported the Kenya Football federation (CAF) beach soccer championship with bottled drinking water.

IX. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2017 which show the state of the Authority's affairs.

Principal activities

The principal activity of the Authority is to regulate, co-ordinate and oversee maritime affairs.

Results

The results of the Authority for the year ended June 30, 2017 are set out on page 1.

Directors

The members of the Board of Directors who served during the year are shown on page vi to xiv in accordance with section 6(1) of the Kenya Maritime Authority Act.

Auditors

The Auditor General is responsible for the statutory audit of the Authority in accordance with article 229 of the Constitution of Kenya and section 35 of the Public Audit Act 2015.

By Order of the Board

CORPORATION SECRETARY
MOMBASA
Date:............................

X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81(5) of the Public Finance Management Act, Cap 412C (PFMA) and section 14(3) of the State Corporations Act, Cap 446 (SCA) require the Directors to prepare financial statements in respect of the Authority, which give a true and fair view of the state of affairs of the Authority at the end of the financial year and the operating results of the Authority for that year. The Directors are also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy the financial position of the Authority. The Directors are also responsible for safeguarding the assets of the Authority.

The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on June 30, 2017. 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 Authority; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Public Sector Accounting Standard (IPSAS), and in the manner required by the PFMA and the SCA. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of Authority's transactions during the financial year ended June 30, 2017, and of the Authority's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of financial statements

The Authority's financial statements were approved by the Board on **24th August, 2017** and signed on its behalf by:

Director	Director	Director

XI. REPORT OF THE INDEPENDENT AUDITORS ON KENYA MARITIME AUTHORITY

REPUBLIC OF KENYA

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HARAMBEE

P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA MARITIME AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Maritime Authority set out on pages 1 to 38, which comprise the statement of financial position as at 30 June 2017, and 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, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Kenya Maritime Authority as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with Kenya Maritime Authority Act, 2006.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1.0 Property, Plant and Equipment

The statement of financial position reflects a balance of Kshs.396,495,684 as at 30 June 2017 in respect of property, plant and equipment as detailed in Note 22 to the financial statements. Audit verifications revealed the following anomalies:

1.1. Construction of Office Block

Included in trade receivables from exchange transactions balance of Kshs.266,166,914 at note 17 to the financial statements is other non-trade figure of Kshs.183,837,788 as at 30 June 2017. The balance of Kshs.183,837,788 includes advance payment of Kshs.182,523,994 to the contractor for the construction of office headquarters. Information available indicates that the contract was awarded to the winning bidder at a price of Kshs.1,825,239,939. However, audit verification of the procurement records revealed the following:

1.1.1 The tender sum was corrected upwards by the tender evaluation committee leading to an increase of Kshs.97,063,521 on the bidder's quote of Kshs.1,728,176,418 to award price of Kshs.1,825,239,939. This was contrary to Section 82 of the Public Procurement and Assets Disposal Act, 2015 which states that, " the tender sum as submitted and read out during the tender opening shall be absolute and final and shall not be the subject of correction, adjustment or amendment in any way by any person or entity". Although the management has argued that the decision was based on Section 50 of the Public Procurement and Disposal Regulations, 2006, however, Section 82 of the Public Procurement and Assets Disposal Act, 2015 is not subject to application of Regulations. As a result, the decision was irregular.

Consequently, the irregularity led to loss of Kshs.97,063,521 of public funds.

1.1.2 Information available indicates that project's lead consultant and who was part of the bid evaluation team had previous worked with one of the bidders who eventually won the contract. However, the consultant did not declare the conflict of interest as required by Section 66 (6) of the Public Procurement and Assets Disposal Act, 2015. Impartiality of the evaluation process could not be confirmed.

In the circumstances, the propriety and legality of Kshs.182,523,994 in respect of property, plant and equipment and value for money for the year ended 30 June 2017 could not be confirmed.

1.2. Purchase of Land for Search and Rescue Centers

Included in property, plant and equipment balance of Kshs.396,495,684 is a figure of Kshs.242,726,737 in respect of land and building as at 30 June 2017. The figure of Kshs.242,726,737 as at 30 June 2017 includes additions of Kshs.35,180,040 which relates to purchase of three pieces of land for search and rescue centres as shown below:

Location	Acres	Amount
Kwale	3.13	19,500,000
Kisumu	0.8	14,280,040
Deposit for Kwale land		1,400,000
Total		**35,180,040**

Audit verification of the procurement documents revealed the following anomalies:

1.2.1 According to the head of procurement's professional opinion for Kwale land prepared on 10 June 2017, it was indicated that the head of procurement compared the prices quoted against the valuation report for each piece of land although the valuation reports were dated 21 July 2016. It implies the valuation report which was received after the head of procurement had issued his professional opinion did not provide guidance in determining the value of the land. This was in violation of Section 84 (1) of the Public Procurement and Asset Disposal Act, 2015 which provides that the head of procurement shall, alongside the report to the evaluation committee, review the tender evaluation report and provide a signed professional opinion to the accounting officer on the procurement or asset disposal proceedings. Therefore, the head of procurement's professional opinion report was misleading.

1.2.2 According to a correspondence by the Ministry of Land and Physical Planning attached to draft valuation report, it referred to a letter reference KMA /PRO/41 dated 13 October 2015 by Kenya Maritime Authority requesting for valuation of the same pieces of land. It therefore implies that the selected plots had already been identified before the advertisement for expression of interest on 25 February 2016. In addition, the letter was not availed for audit verification despite several requests. It is an indication of predetermined supplier.

1.2.3 According to the advertisement for Kisumu land, the land was expected to measure 1 acre and within the vicinity of the port. However, the tender was awarded to a bidder whose land measured 0.8 acres and was 7.1 kilometers from Kisumu Port. This is contrary to the Section 80 (2) of the Public Procurement and Assets Disposal Act, 2015 which provides that the evaluation and comparison shall be done using the procedures and criteria set out in the tender documents.

In the circumstances, the propriety and legality of Kshs.35,180,040 in respect of property, plant and equipment and value for money for the year ended 30 June 2017 could not be confirmed.

2. Mortgage Guarantees

The statement of financial position reflects a balance of Kshs.156,655,845 in respect of mortgage guarantees. Information available indicates that the Authority has a staff car loan and mortgage schemes operated by Family Bank Ltd and Kenya Commercial Bank respectively. However, financial statements for the two schemes were not submitted the to the Auditor-General for audit contrary to Section 81 (1 & 4) of the Public Finance Management Act, 2012 which requires that at the end of each financial year, the accounting officer for a national government entity shall prepare financial statements in respect of the entity and submit the same to the Auditor-General. In addition, according to paragraph 5 of Part 4 of the Salaries and Remuneration Commission's Circular SRC/ADM/CIR/1/13 Vol.III (128) dated 17 December 2014 on the management car loan and mortgage schemes for state officer requires each scheme to be subjected to annual audit of the government.

As a result, the accuracy, completeness and legality of mortgage guarantees balance of Kshs.156,655,845 as at 30 June 2017 could not be confirmed.

3. Merchant Shipping Levy

The statement of financial performance reflects a figure of Kshs.1,327,603,245 in respect of Merchant Superintendent Shipping Levy (MSS) for the year ended 30 June 2017. Records availed for audit indicates that Kenya Maritime Authority had outsourced the collection of merchant shipping levy to Kenya Revenue Authority. However, audit verifications revealed that the management had not put in place a system for determining merchant shipping levies collectable although Kenya Revenue Authority has been remitting copies of cargo manifests to Kenya Maritime Authority. It was observed that the management only relies on revenue reports remitted by Kenya Revenue Authority without any evidence of reconciliation between the expected revenue as per cargo manifest against remittances by Kenya Revenue Authority.

Consequently, the accuracy, validity and completeness of levies figure of Kshs.1,327,603,245 for the year ended 30 June 2017 could not be confirmed.

4. Investments

Note 16 to the financial statements reflects an amount of Kshs.1,050,901,393 in respect of various fixed deposits during the year ended 30 June 2017. However, there was no evidence of how the banks were identified and selected. In addition, there was no evidence that the National Treasury approved the investments in line with Section 1.7 of National Treasury Circular No.15/2016 Reference No. DGIPE /A / 1 /10 dated 19 August 2016 which states that "*....no state corporation should invest surplus funds in any financial institutions / bank without prior approval of the National Treasury, other than where the investments is in Treasury Bills and Bonds*". Further, Section 20 (a) of the Kenya Maritime Authority Act, 2006 provides that surplus funds shall be invested in Government securities. Therefore, the management was in breach of the law.

In the circumstances, legality and value for money from the investments of Kshs.1,050,901,393 for the year ended 30 June 2017 could not be ascertained.

5. Board of Directors Cost

Note 11 to the financial statements reflects an amount of Kshs.57,389,175 in respect of board of directors cost for the year ended 30 June 2017. Audit examination of the board of directors' records revealed the following anomalies:

5.1. Excessive Expenditure

Audit analysis of the Board of directors costs revealed that the board held forty seven (47) sittings including twenty two (22) full board sittings and twenty five (25) committee sittings during the financial year and as a result meeting costs rose by Kshs.9,144,524 or 19% of expenditure balance of Kshs.48,244,651 and thirty (30) sittings reported in the year 2015/2016. This is an indication of extravagant use of public resources contrary to Article 232 (1- b) of the Constitution of Kenya, 2010 which provides that the values and principles of public service include efficient, effective and economic use of resources.

5.2. Irregular Sittings

A total of Kshs.9,877,181 was paid to board members for foreign meetings which were not in annual approved work plan contrary to Section 7 of Mwongozo Code of Governance for State Corporations, 2015 which requires the Chairperson of the Board to ensure that the Board develops and adheres to the annual work plan. In addition, the board members attended the following activities which were not in the annual work plan as detailed below:

Event	Amount Kshs.
Trainings	6,518,190.95
KECOSO Games	265,670.00
Agricultural Society of Kenya Shows	1,806,399.00
Others	5,856,598.00
Total	**14,446,857.95**

Audit verification of the other expenditure as indicated above, revealed the expenditure included; benchmarking trip to Thailand, attending CSR activities, courtesy call to County Governor, attending burial of Principal Secretary's relative, sensitization of boat owners among others which are administrative functions as outlined in Mwongozo Code of Governance for State Corporations, 2015, Section 1.2 (C) and 1.19 on the role and functions of the Board and role of the CEO respectively. Further, the sitting allowances were paid to board members without evidence of notices of the meeting, agenda for the meeting and respective board minutes for the above events as provided for by Section 7 of Mwongozo Code of Governance for State Corporations, 2015.

Consequently, the propriety of the board expenditure amounting to Kshs.24,324,039 for the year ended 30 June 2017 could not be ascertained.

6. Employee Costs

Note 10 to the financial statements reflects an amount of Kshs.460,353,351 in respect of employee costs for the year ended 30 June 2017. Audit verification of the employee cost records revealed the following anomalies:

6.1. Recruitment

Records availed for audit indicate that the Authority employed thirty one (31) additional staff during the year under review. Audit verification of the recruitment process for various positions revealed that the recruitment of nineteen new staff including; assistant accountant, accounts assistant, assistant public relations officer, assistant human resources officer, ICT assistant, procurement assistant, assistant internal audit officer and ICT assistant, eleven drivers, six office assistants, and two data entry clerks was done without evidence of advertisement. This was contrary to Section B.4(1) of the Human Resource Policies and Procedures Manual for the Public Service which provides that Ministries/State Departments will advertise all vacant posts in a manner that reaches the widest pool of potential applicants. Further, there was no evidence that the management received approval from the National Treasury to recruit the new staff in line with National Treasury Circular No.20/2015 reference ES 1/03 'J' (79) dated 4 November 2015 freezing recruitment of new staff including in state corporation.

Further, recruitment for the position of; assistant accountant, accounts assistant, assistant public relations officer, assistant human resources officer, ICT assistant, procurement assistant, assistant internal audit officer and ICT assistant was not evidenced by application, short-listing, interview and appointment. It was, therefore, not evident that the vacancies were competitively filled on merit as the basis of appointments and promotions was not availed for audit review. As a result, the management was in breach of the law.

6.2. Staff Training

Included in the employee costs expenditure figure of Kshs.460,353,351 as reported in Note 10 to the financial statement for the year ended 30 June 2017, is staff training figure of Kshs.180,145,891. The expenditure increased by Kshs.52,100,269 being an increase of 41% compared to expenditure of Kshs.128,045,622 reported in the financial year 2015/2016. Audit verification revealed the following anomalies:

6.2.1 Lack of Training Needs Assessment

Records availed for audit verifications indicate that in June 2016, the management engaged a consultant to undertake a training needs assessment of the Authority whose draft report was submitted to management in August 2016. However, there was no evidence that the exercise was finalized. In addition, it was not clearly explained the basis of preparing the staff training plan for financial year 2016-2017 whose needs assessment had not been determined. This was contrary to Section 3 of Guidelines on Managing Training in the Public Service which states that "*planning for training shall be guided by the outcome of Training Needs Assessment and shall be designed in line with identified performance gaps linking training to closing of such gaps*" It was not clear how the training needs were identified. The Authority may not have obtained value for money on this expenditure.

6.2.2 Locally Available Training Held Abroad

Included in the training expenditure of Kshs.180,145,891 are various trainings undertaken abroad at a cost of Kshs.23,707,024. However, audit examination of the courses revealed that the courses were locally available as detailed below:

No.	Training	Trainers	Country	Local Trainers	Cost of Travel and Accommo-dation
1.	Records Management Course	3/10/16 - 21/10/16	Tanzania	Kenya School of Government.	2,235,506
2.	Microsoft Server Training	10 /10/16 - 20/10/16	India	2KO Kenya, Netcom Learning	448,844
3.	Evaluation of Projects	19/9/2017 -7/10/16	Zambia	Kenya School of Government.	737,330
4.	Ethics reforms course	310/16 - 21/10/16	Tanzania	Kenya School of Government.	571,278
5.	Ethics & Governance course	310/16 - 21/10/16	Tanzania	Kenya School of Government.	571,278
6.	Certificate of competency courses		Singapore	Kenya School of Government.	6,221,764
7.	Advanced Project Management Training	1710/16 - 28/10/16	Tanzania	Kenya School of Government	1,268,713
8.	Risk Management & Quality Assurance Training	3/10/16 - 7/10/16	Malaysia	ICPAK, Governance Optimized	286,930
9.	Management Development Training Program	10/10/17 - 4/11/16	South Africa	Kenya School of Government	790,148
10.	ICT Computer Software Management	31/10/16 - 11/11/16	Dubai	2KO Kenya, Netcom Learning	785,068
11.	HIV/AIDS Workplace counselling	711/16 - 18/11/16	Tanzania	Kenya School of Government	376,947
12.	IFMIS Training	31/10/16 - 25/11/16	Tanzania	Kenya School of Government	4,598,635
13.	Executive Management Course	1410/16 - 25/11/16	Swaziland	Kenya School of Government	1,974,541
14.	E-Records Training	0710/16 - 25/11/16	Tanzania	Kenya School of Government	924,238
15.	Supply Chain Management	0710/16 - 25/11/16	Swaziland	Kenya School of Government	1,233,736
16.	Audit Risk Based Internal Audit.	1010/16 - 21/10/16	United Kingdom	ICPAK, Governance Optimized	682,068
	Total				**23,707,024**

It was not clear why the trainings could not be sourced locally. In addition, some of the trainings attended were offered by ESAMI which offer the same course locally. This is contrary to Section 4.2.1 of the Guidelines on Managing Training in the Public Service which provides that approval to train in foreign based institutions will be granted only in instances where the course applied for is not available in any local institution.

Further, the foreign travels were not supported with evidence of clearance from Permanent Secretary of the parent ministry contrary to Revised code of regulations 2006 and circular OP/CAB.9/9 by the Permanent Secretary, Secretary to the Cabinet and Head of Public Service which require officers traveling abroad to seek clearance from Permanent Secretary of the Parent Ministry.

In the circumstances, the propriety and regularity for expenditure of Kshs.180,145,891 for employee costs for the year ended 30 June 2017 to could not be ascertained.

7. Duty Travel Allowances

Included in general expenditure of Kshs.536,689,113 under note14 to the financial statements is duty travel allowances of Kshs.89,330,791 for the year ended 30 June 2017. Audit analysis revealed that the expenditure increased by Kshs.23,135,190 which is 35% compared to an expenditure of Kshs.66,195,601 reported in 2015/2016 financial year. In addition, records availed for audit verifications indicated that during the period under audit, foreign travel allowance to various staff was not supported by evidence of clearance from Permanent Secretary of the parent ministry. This was contrary to Revised code of regulations 2006 and circular OP/CAB.9/9 by the Permanent Secretary, Secretary to the Cabinet and Head of Public Service which require officers traveling abroad to seek clearance from Permanent Secretary of the Parent Ministry. Therefore, the management was in breach of the law.

Further, included in duty travel allowances of Kshs.89,330,791 is travel allowance and air tickets expenditure amounting to Kshs.9,899,000 for staff of the ministry on foreign travels. Although the management indicated that Ministry requested for the support due to constraints, it was not clearly explained how the Authority funded activities of another entity without a budget.

In the circumstances, the propriety and regularity of duty travel allowances expenditure amounting to Kshs.89,330,791 for the year ended 30 June 2017 could not be ascertained.

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

Key Audit Matters

Key Audit Matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, there are no Key Audit Matters to communicate in my report.

Other Matter

1.0. Budgetary Controls and Performance

According to the statement of comparison of budget and actual amounts, the Authority had a total budget of Kshs.1,998,000,000 compared to a budget of Kshs.1,085,976,000 for financial year 2015/2016 representing an increase of Kshs.912,024,000 or 84%. Audit analysis of the budget performance revealed significant under-absorption on the following budget lines:

Item	Budgeted Allocation (Kshs)	Actual Kshs	Under Absorption Kshs	Under Absorption %
Staff Allowances	123,150,000	7,175,578	115,974,422	94
Water	5,000,000	799,203	4,200,797	84
Fuel	10,000,000	2,161,687	7,838,313	78
Club Fees	1,500,000	0	1,500,000	100
Research & Development	158,000,000	12,456,690	145,543,310	92
Total	**297,650,000**	**22,593,158**	**275,056,842**	

In overall, the Authority under spent to a tune of Kshs.546,954,555 or 33% of the total budget allocation as detailed in the statement of comparison of budget and actual amounts. The funds could have been allocated to other deserving areas that would improve delivery of goods and services to the public. This may also be an indication of improper planning and the management may need to re-think on its budget making process with a view to focusing on more priority areas.

2.0. Lack of Substantive Director-General

For the last two years, the Authority had been led by an acting Director-General. Information available indicates that the recruitment process was cancelled due to a court case. The acting Director-General may not provide effective administrative structures and leadership to the Authority's management due to the nature of the appointment. There is need for the Board to pursue the court case to its settlement in order to allow recruitment of Director-General to be concluded without further delay.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Authority or to cease operations, or have no realistic alternative but to do so.

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

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and for the purpose of giving an assurance on the effectiveness of the Authority's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

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

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

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

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

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

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

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

Nairobi

12 March 2018

XII. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017

		2016-2017	2015-2016
Revenue from non-exchange transactions	**Note**	**Kshs**	**Kshs**
Levies	3	1,327,603,245	934,437,805
Government grants	4	-	50,776,000
		1,327,603,245	**985,213,805**
Revenue from exchange transactions			
Rendering of services	5	12,384,187	12,147,722
Finance income	6	87,766,959	103,284,573
Other income	7	6,578,673	5,302,706
		106,729,819	**120,735,001**
Total Revenue		**1,434,333,064**	**1,105,948,806**
Expense			
Employee costs	10	460,353,351	358,768,913
Board of directors cost	11	57,389,175	48,244,651
Water and electricity	12	4,772,724	3,867,918
Repairs and maintenance	13	9,123,678	3,863,368
General office expenditure	14	536,689,113	337,595,541
Depreciation	15	40,217,534	38,666,828
Total expenses		**1,108,545,575**	**791,007,219**
Other gains			
Gain on sale of assets	8	98,460	-
Gain on foreign exchange transactions	9	343,121	286,583
Surplus		**326,229,070**	**315,228,170**

The notes set out on pages 11 to 38 form an integral part of these Financial Statements

XIII. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

Assets	Note	2016-2017 Kshs	2015-2016 Kshs
Current Assets			
Cash and cash equivalents	16	1,102,572,130	1,093,971,702
Trade receivable from exchange	17	266,166,914	110,444,711
Trade receivable from non-exchange transactions	18	140,797,763	74,024,677
Inventories	19	3,434,786	4,621,343
		1,512,971,593	**1,283,062,432**
Non-current assets			
Property, plant & equipment	22	396,495,684	290,843,167
Intangible assets	21	18,523,651	22,192,585
Mortgage Guarantees	20	156,655,845	136,655,846
		571,675,180	**449,691,598**
Total Assets		**2,084,646,773**	**1,732,754,031**
Liabilities			
Current liability			
Trade and other payables from exchange	23	74,178,558	43,431,930
Gratuity	24	5,846,814	9,172,726
Cash Book Overdraft	25	-	1,757,044
Total liabilities		**80,025,372**	**54,361,700**
Net assets			
Capital reserve	XIII	117,586,100	117,586,100
Revenue reserve	XIII	1,679,411,730	1,383,182,660
Revaluation reserve	XIII	7,623,571	7,623,571
Oil spill response mobilization fund	XIII	200,000,000	170,000,000
Total net assets and liabilities		**2,084,646,773**	**1,732,754,031**

The Financial Statements set out on pages 1 to 38 were signed on behalf of the Board of Directors by:

Director General	Head of Finance	Chairman of the Board
Name: Mr. Cosmas Cherop	Name: Mr. Edwin Were	Name:
	ICPAK Member No:	
…………………………	…………………………	…………………………
Date 30/1/18	Date 30/1/18	Date……………………

XIV. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2017

	Capital	Revenue reserves	Revaluation reserves	Specific reserves	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
Balance as at 30th June 2015	**76,771,434**	**1,097,954,490**	**7,623,571**	**140,000,000**	**1,322,349,495**
Surplus for the year	-	315,228,170	-	-	315,228,170
Revaluation Reserve	-	-	-	-	-
Oil Spill Response Mobilization Fund	-	(30,000,000)	-	30,000,000	-
Donated assets	40,814,666	-	-	-	40,814,666
Balance as at 30th June 2016	**117,586,100**	**1,383,182,660**	**7,623,571**	**170,000,000**	**1,678,392,331**
Surplus for the year	-	326,229,070	-	-	326,229,070
Revaluation Reserve	-	-	-	-	-
Oil Spill Response Mobilization Fund	-	(30,000,000)	-	30,000,000	-
Donated assets	-	-	-	-	-
Balance as at 30th June 2017	**117,586,100**	**1,679,411,730**	**7,623,571**	**200,000,000**	**2,004,621,401**

Nature and Purpose of Reserves

Revenue Reserves
These are surplus/deficits which the Authority has accumulated over the years.

Revaluation Reserves
The revaluation reserves are created by the revaluation surplus emanating from revaluation of Authority's assets from time to time.

Specific Reserves

i. **Oil Spill Mobilization Reserve**
This is a reserve set up for mobilizing services providers to conduct a cleanup in case of an oil spill incidence. This would minimize the response time to contain an oil spill and the impact on marine environment thereof. The funds are held as call deposits with the Kenya Commercial Bank. The reserve balance as at the end of 30th June 2017 was Kshs 90Million

ii. **Search and Rescue Mobilization Reserve**
This is a fund set up for mobilizing services providers to conduct a search and/or rescue in case of an accident at sea. This would minimize the response time to save lives and loss of life thereof. The funds are held as call deposits with the Kenya Commercial Bank. The reserve balance as at the end of 30th June 2017 was Kshs 110Million.

XV. STATEMENT OF CASH FLOWS AS AT 30 JUNE 2017

	Note	2016-2017 Kshs	2015-2016 Kshs
Cash flow from operating activities			**RESTATED**
Operating Surplus		326,229,070	315,228,170
Depreciation	13	40,217,534	38,666,828
Gain on Disposal of Non- Current Asset	8	(98,460)	-
Foreign Exchange (Gain) Loss	9	(343,121)	(286,583)
Interest Income	6	(87,766,959)	(103,284,573)
		278,238,064	**250,323,842**
Working Capital changes			
Increase in Trade Receivables	17&18	(222,495,289)	(10,240,749)
Increase in Trade Payables	23	30,746,628	10,738,982
Decrease in Gratuity	24	(3,325,913)	(3,510,316)
Decrease in Inventories	19	1,186,558	1,090,987
Net cash generated from operating activities		**(193,888,016)**	**(1,921,096)**
Investing activities			
Purchase of Property, Plant and Equipment	21&22	(142,201,117)	(31,984,311)
Proceeds from Sale of Property, Plant & Equipment	8	98,460	-
Investment in Fixed Deposits and Long Term Deposits	16 & 20	917,968,323	579,595,487
Interest Income	6	87,766,959	103,284,573
Foreign Exchange (Gain) /loss	9	343,121	286,583
Net cash flow used in in investing activities		**863,975,745**	**651,182,332**
Net Increase / (Decrease) in cash and cash equivalents		**948,325,794**	**899,585,078**
Cash and Cash Equivalent as at 01 July		154,246,336	192,629,580
Cash and Cash Equivalent as at 30 June		**1,102,572,130**	**1,092,214,658**

XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2017

Revenue	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	
	2016-2017	2016-2017	2016-2017	2016-2017	2016-2017	
MS Levy	1,000,000,000.00	-900,000,000.00	1,900,000,000.00	1,327,603,244.93	-572,396,755.07	-30%
Survey, Shipping Agency fee & others	23,000,000.00	-	23,000,000.00	18,962,860.68	-4,037,139.32	-18%
Interest Income	75,000,000.00	-	75,000,000.00	87,766,959.30	12,766,959.30	17%
Government Grants	40,000,000.00	40,000,000.00	-	-	-	0%
Total income	**885,976,000.00**	**200,000,000.00**	**1,998,000,000.00**	**1,434,333,064.91**	**-563,666,935.09**	-28%
Expense						
Basic Salary	268,000,000.00	-	268,000,000.00	174,807,602.21	93,192,397.79	35%
Staff Allowances	123,150,000.00	-	123,150,000.00	7,175,578.48	115,974,421.52	94%
House Allowance	47,700,000.00	-	47,700,000.00	30,181,425.72	17,518,574.28	37%
Leave Allowance	5,821,000.00	1,000.00	5,820,000.00	9,124,290.69	-3,304,290.69	-57%
Commuter Allowance	31,000,000.00	-	31,000,000.00	19,355,698.59	11,644,301.41	38%
Staff Training Costs	120,000,000.00	-54,000,000.00	174,000,000.00	180,145,890.97	-6,145,890.97	-4%
Induction and Orientation	1,000,000.00	-	1,000,000.00	627,050.00	372,950.00	37%
Recruitment -New staff	1,500,000.00	-	1,500,000.00	1,460,548.00	39,452.00	3%
Pension Expenditure	45,000,000.00	9,000,000.00	36,000,000.00	37,475,266.01	-1,475,266.01	-4%
Airfare-Directors	18,500,000.00	-500,000.00	19,000,000.00	15,709,877.00	3,290,123.00	17%
Board Expense	33,460,000.00	-9,500,000.00	42,960,000.00	41,679,298.75	1,280,701.25	3%
Water	5,000,000.00	-	5,000,000.00	755,148.00	4,244,852.00	85%
Electricity	4,000,000.00	-	4,000,000.00	4,017,576.16	-17,576.16	0%
Comp Services & Maint.	2,000,000.00	-	2,000,000.00	3,065,546.07	-1,065,546.07	-53%
Motor Vehicles Maintenance	5,000,000.00	-	5,000,000.00	2,336,185.09	2,663,814.91	53%
Leasehold-Maintenance	2,000,000.00	-	2,000,000.00	1,985,346.20	14,653.80	1%
Maintenance-Furniture, Fittings & Gen Maintenance	4,000,000.00	2,000,000.00	2,000,000.00	1,736,601.00	263,399.00	13%
Airfare -staff	35,000,000.00	-10,000,000.00	45,000,000.00	37,614,339.25	7,385,660.75	16%
Duty Travel (Domestic)	60,000,000.00	3,000,000.00	57,000,000.00	37,140,711.16	19,859,288.84	35%
Duty Travel (Foreign)	62,000,000.00	0.00	62,000,000.00	52,190,079.85	9,809,920.15	16%
Conference & Seminars	69,000,000.00	-17,000,000.00	86,000,000.00	82,295,468.69	3,704,531.31	4%
Advertising	15,000,000.00	-3,000,000.00	18,000,000.00	15,840,546.73	2,159,453.27	12%
Publicity & Awareness	109,336,000.00	-4,000.00	109,340,000.00	106,679,870.00	2,660,130.00	2%
Medical & Group Cover	60,000,000.00	-	60,000,000.00	34,292,763.69	25,707,236.31	43%
Rent & Rates	13,000,000.00	-	13,000,000.00	11,918,185.27	1,081,814.73	8%
Community Support HIV & AIDS	7,000,000.00	-	7,000,000.00	5,045,250.70	1,954,749.30	28%
Hire of Transport-Taxi	8,000,000.00	-3,000,000.00	11,000,000.00	10,658,811.98	341,188.02	3%
Fuel	10,000,000.00	-	10,000,000.00	2,161,687.88	7,838,312.12	78%
Library Expenses	1,500,000.00	-	1,500,000.00	706,146.68	793,983.32	53%

Club Fees	1,500,000.00	-	1,500,000.00	-	1,500,000.00	100%
Research & Development	150,000,000.00	-8,000,000.00	158,000,000.00	12,456,690.21	145,543,309.79	92%
Corporate social responsibility	20,000,000.00	(5,000,000.00)	25,000,000.00	19,706,175.65	5,293,824.35	21%
Bank Charges	25,000,000.00	-19,580,000.00	44,580,000.00	31,297,151.34	13,282,848.66	30%
Security Services	10,000,000.00	-	10,000,000.00	6,960,870.00	3,039,130.00	30%
Audit fee	1,500,000.00	-	1,500,000.00	1,400,000.00	100,000.00	7%
Consultancy fee	9,000,000.00	-27,000,000.00	36,000,000.00	19,958,436.40	16,041,563.60	45%
Annual Subscriptions & License	9,000,000.00	-	9,000,000.00	6,030,254.33	2,969,745.67	33%
Insurance Exp.	6,000,000.00	-	6,000,000.00	5,176,074.73	823,925.27	14%
Legal Fee	4,000,000.00	-1,200,000.00	5,200,000.00	1,127,189.00	4,072,811.00	78%
Marine Safety & Env. Protection	2,500,000.00	-750,000.00	3,250,000.00	3,118,650.00	131,350.00	4%
Office Incidentals	10,000,000.00	2,000,000.00	8,000,000.00	4,232,685.59	3,767,314.41	47%
Uniform & Protective Clothing	3,000,000.00	-	3,000,000.00	2,306,816.00	693,184.00	23%
Cleaning Service	7,000,000.00	-1,500,000.00	8,500,000.00	4,851,933.48	3,648,066.52	43%
Entertainment	3,000,000.00	0.00	3,000,000.00	2,490,529.48	509,470.52	17%
Entertainment third party	3,000,000.00	-	3,000,000.00	2,301,573.84	698,426.16	23%
Printing & Stationary	13,000,000.00	-	13,000,000.00	4,043,866.39	8,956,133.61	69%
Other General expense	-	-	2,000,000.00	834,811.93	1,165,188.07	58%
Provision for Bad & Doubtful Debts	-	-	-	4,061,057.00	4,061,057.00	
Communication Cost	15,000,000.00	-	15,000,000.00	7,790,484.19	7,209,515.81	48%
Depreciation	50,000,000.00	-	50,000,000.00	40,217,534.70	9,782,465.30	20%
Total Expenditure	**1,509,467,000.00**	**-144,033,000.00**	**1,655,500,000.00**	**1,108,545,575.08**	**546,954,554.92**	**33%**
Surplus for the period	**(623,491,000.00)**	**344,033,000.00**	**342,500,000.00**	**325,787,489.83**	**(1,110,621,490.01)**	

Explanation of differences between Actual and Budgeted amounts (10% over/ under)

Ms Levy: The projected growth of seaborne trade of 10% was not actualized. The actual growth was less than 2%. This minimal growth affected the revenue collection.

Survey, Shipping Agency fee & others: The variance was caused by low enforcement level during the year which management have put in place mechanism to address in collaboration with the Maritime police.

Interest Income: The positive variance is attributed to a slight delay in implementation of the major project that were to kicks start during the year. Hence allowing the Authority to invest temporarily the funds meant for these projects in FDRs.

Government Grants: The Authority had received Ksh. 25,488,000 or 1st and 2nd Quarters of the financial year 2016-2017 budgeted allocation. During the supplementary budget the government support was withdrawn and the same communicated to the Authority hence the funds received were refunded to the parent Ministry on 27/06/2017.

Explanation of differences between Actual and Budgeted amounts (10% over/ under)....Continued

Staff Emoluments: The planned filling of the vacant KMA position was delayed due to various circulars from PSC hence leading to the positive variance since the amount had been allocated in the budget.

Airfare-Directors: Expected Board of Directors benchmarking to maritime administrations did not take place as planned; Directors trainings concentrated in local regions.

Water: Authority had anticipated full operations of branch offices with all the necessary staff but this didn't take place as anticipated. In addition, the Headquarters utilized water from borehole thus low water bills.

Computer Services & Maintenance: ICT equipment which were due for maintenance were earmarked for disposal thus no maintenance was done.

Motor Vehicles Maintenance: Low level maintenance cost as they are still new.

Furniture, Fittings & General Maintenance: Disposal of old furniture & Purchase of new furniture for the newly recruited employees resulted in low cost of maintenance.

Airfare, Domestic and Foreign Duty Travel: Some planned activities that were to take place especially in the inland water didn't materialized leading to positive variance in terms of airfare and domestic travel. The competitive approach of procuring the air ticket has also led to cut in cost of travelling expense.

Advertising: The Government circular to centralize all the advertisement led to drop in the cost of advertise due to economies of scale.

Medical & Group Cover: The positive variance was attributed to delay in recruitment of new staff that were to utilize the medical cover during the year. This was due to a circular from PSC freezing the recruitment.

Community Support HIV & AIDS: Planned activities in insecure areas could not be done. This included Lamu and Turkana.

Fuel: Budgeted boats were not purchased leading to savings: Fuel consumption was also low for the rescue boats and motor vehicles as the fleet was still new. Fuel prices were at a level lower than budgeted.

Library Expenses: Procurement processes ongoing searching for most current publications.

Club Fees: The Authority anticipated to bring on board more staff member after recruitment but there was delay. The Authority was also to change or increase the services the staff were receiving which was to lead to extra cost.

Research & Development: Engagement with Kentrade and KRA ongoing to establish a platform for direct transmission of manifest business rules and process mapping. The process was delayed because KRA is launching a new system Integrated Customs Management System. Other project were still under procurement as at the year-end like strategic plan and customer satisfaction surveys.

Corporate Social Responsibility: Some of the approved programmes had not been finalized due to the procurement process not having been completed and inspections done. In other instances, the CSR process of implementation of the programmes had not ended by the end of the year.

Bank Charges & Collection Commission: Collection commissions is percentage of MS Levy, hence a miss in achieving the target on collecting anticipated levy leads to positive variance on collection cost.

Security Services: The Authority didn't finalize the purchase of Search and Rescue boats during the financial year which would have required security hence leading to positive variance during the year.

Consultancy fee: More consultancy work were initiated with others still in procurement stage.

Annual Subscriptions & License: The Authority expected an increase in annual subscription of the new staff that were to be recruited but this was delayed leading to positive variance.

Insurance Expense: Insurance cost for anticipated new boats led to positive variance.

Legal Fee: Uncertainty of legal environment & litigious nature of stakeholders in regard to regulations, legal fees provided didn't materialize during the year. The ongoing cases were not concluded and some court advise out of court settlement hence leading to positive variance.

Office Incidentals: Most of the office incidental were very low since most of the items were covered under other vote head. In addition, most of the trainee surveyors were out of the office for their training leading to low population in safety department.

Uniform & Protective Clothing: The planned recruitment of new & specialized staff requiring special uniform was delayed leading to positive variance.

Cleaning Service: The authority had anticipated bringing in new service providers at higher cost.

Entertainment and Entertainment Third Party: Some of the anticipated visit by our stakeholders didn't materialize due to logistical challenges but have been planned next year.

Printing & Stationary: Authority has digitized its operations thus leading to cost savings.

Communication Cost: Authority has digitized its operations thus savings.

Depreciation: The Authority had anticipated purchasing three boats during the financial year which had not been delivered as at the end of the financial year.

Explanation of changes between Original and Final budget

Revenue	**Original budget**	**Adjustments**	**Final budget**	**Reason**
MS Levy	1,000,000,000.00	**-900,000,000.00**	1,900,000,000.00	Supplementary
Expenses				
Leave Allowance	5,821,000.00	1,000.00	5,820,000.00	Supplementary
Staff Training Costs	120,000,000.00	-54,000,000.00	174,000,000.00	Supplementary
Pension Expenditure	45,000,000.00	9,000,000.00	36,000,000.00	Reallocation
Airfare-Directors	18,500,000.00	-500,000.00	19,000,000.00	Supplementary
Board Expense	33,460,000.00	-9,500,000.00	42,960,000.00	Supplementary
Maintenance-Furniture, Fittings & Gen Maintenance	4,000,000.00	2,000,000.00	2,000,000.00	Reallocation
Airfare -staff	35,000,000.00	-10,000,000.00	45,000,000.00	Supplementary
Duty Travel (Domestic)	60,000,000.00	3,000,000.00	57,000,000.00	Reallocation
Conference & Seminars	69,000,000.00	-17,000,000.00	86,000,000.00	Supplementary
Advertising	15,000,000.00	-3,000,000.00	18,000,000.00	Supplementary
Publicity & Awareness	109,336,000.00	-4,000.00	109,340,000.00	Supplementary
Hire of Transport-Taxi	8,000,000.00	-3,000,000.00	11,000,000.00	Reallocation
Research & Development	150,000,000.00	-8,000,000.00	158,000,000.00	Supplementary
Corporate social responsibility	20,000,000.00	(5,000,000.00)	25,000,000.00	Reallocation
Bank Charges & Collection Commission	25,000,000.00	-19,580,000.00	44,580,000.00	Supplementary
Consultancy fee	9,000,000.00	-27,000,000.00	36,000,000.00	Reallocation
Legal Fee	4,000,000.00	-1,200,000.00	5,200,000.00	Supplementary
Marine Safety & Env. Protection	2,500,000.00	-750,000.00	3,250,000.00	Supplementary
Office Incidentals	10,000,000.00	2,000,000.00	8,000,000.00	Reallocation
Cleaning Service	7,000,000.00	-1,500,000.00	8,500,000.00	Supplementary

XVII. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Kenya Maritime Authority is established by and derives its authority and accountability from KMA Act. The Authority is wholly owned by the Government of Kenya and is domiciled in Kenya. Kenya Maritime Authority's principal activity is to regulate, co-ordinate and oversee maritime affairs.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION– IPSAS 1

The Authority's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Authority. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

3. ADOPTION OF NEW AND REVISED STANDARDS

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2017

Standard	Impact
IPSAS 33: First time adoption of Accrual Basis IPSAS	**(Effective for annual periods beginning on or January 1, 2017)** In January 2015, the IPSASB published IPSAS 33, First-time Adoption of Accrual Basis IPSASs. IPSAS 33 grants transitional exemptions to entities adopting accrual basis IPSASs for the first time, providing a major tool to help entities along their journey to implement IPSASs. It allows first-time adopters three years to recognize specified assets and liabilities. This provision allows sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period. The Authority adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first time adoption of accrual basis does not apply.
IPSAS 34: Separate Financial Statements	**(Effective for annual periods beginning on or January 1, 2017)** In January 2015, the IPSASB published IPSAS 34, Separate Financial Statements. IPSAS 34 prescribes the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements. The Authority does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.

<table>
<tr><th>Standard</th><th>Impact</th></tr>
<tr><td>IPSAS 35:
Consolidated
Financial
Statements</td><td>Effective for annual periods beginning on or January 1, 2017)
In January 2015, the IPSASB published IPSAS 35, Consolidated Financial Statements. IPSAS 35 establishes principles for the preparation and disclosure of consolidated financial statements when an entity controls one or more entities. It requires an entity that controls one or more other entities to assess control over those entities based on the following:
- Its power over the other entity
- Its exposure or rights to variable benefits from involvement with the other entity
- Its ability to control the nature, timing and amount of benefits from the other entity.
Once control is assessed the controlling entity is supposed to prepare consolidated financial statements unless it meets all the criteria under section 5 of IPSAS 35.

The Authority does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.</td></tr>
<tr><td>IPSAS 36:
Investments in
Associates and
Joint Ventures</td><td>(Effective for annual periods beginning on or January 1, 2017)
In January 2015, the IPSASB published IPSAS 36, Investments in Associates and Joint Ventures. The Standard prescribes for the accounting for investments in associates and joint ventures and to set out requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard shall be applied by all entities with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest.

The Authority does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.</td></tr>
<tr><td>IPSAS 37: Joint
Arrangements</td><td>(Effective for annual periods beginning on or January 1, 2017)
In January 2015, the IPSASB published IPSAS 37, Joint Arrangements. IPSAS 37 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly.

The Authority does not have an interest in a joint arrangement and therefore the standard does not apply.</td></tr>
<tr><td>IPSAS 38:
Disclosure of
Interests in Other
Entities</td><td>(Effective for annual periods beginning on or January 1, 2017)
In January 2015, the IPSASB published IPSAS 38, Disclosure of Interests in Other Entities. IPSAS 38 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with, its interests in controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and the effects of those interests on its financial position, financial performance and cash flows.</td></tr>
</table>

Standard	Impact
	The Authority does not have an interests in other entities and therefore the standard does not apply.

ii. **New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017**

Standard	Effective date and impact:
IPSAS 39: Employee Benefits	**Applicable: 1st January 2018** The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.
IPSAS 40: Public Sector Combinations	**Applicable: 1st January 2019:** The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3(applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.

iii. **Early adoption of standards**

The Authority did not early adopt any new or amended standards in year 2017.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

i) Revenue from non-exchange transactions – IPSAS 23

Fees/Levy

The Authority recognizes revenues from fee/levy 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 Authority and the fair value of the asset can be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Transfers from the Government

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

Revenue from exchange transactions – IPSAS 9

Rendering of services

The Authority recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably.

Inspection fee is recognized only after the vessel is compliant with all the safety requirement and the related cost can reliably be measured. Where the inspection outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Interest income

Interest income is accrued using the negotiated interest rate. The negotiated interest rate estimated future cash receipts through the expected life of the financial asset to that asset's net applicable taxes (withholding tax). The method applies this yield to the principal outstanding to determine interest income each period.

Rental income

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

b) Budget information – IPSAS 24

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

c) Property, plant and equipment – IPSAS 17

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 Authority 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 using independent external valuers.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

d) Intangible assets – IPSAS 31

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite.

e) Research and development costs

The Authority expenses research costs as incurred. Development costs on an individual project are recognized when incurred and expensed in relevant period.

f) Financial instruments – IPSAS 29

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Authority determines the classification of its financial assets at initial recognition.

Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Authority has the positive intention and ability to hold it to maturity. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Authority assesses at each reporting date whether there is objective evidence that a financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include the following indicators:

1) The debtors or an entity of debtors are experiencing significant financial difficulty
2) Default or delinquency in interest or principal payments
3) The probability that debtors will enter bankruptcy or other financial reorganization
4) Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)
5) Financial liabilities

NOTES TO THE FINANCIAL STATEMENTS (Continued)

g) Inventories – IPSAS 12

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

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

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Authority.

h) Provisions – IPSAS 19

Provisions are recognized when the Authority 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 Authority 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.

Contingent liabilities

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

Contingent assets

The Authority 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 Authority 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

i) Nature and purpose of reserves

The Authority creates and maintains reserves in terms of specific requirements. Authority has got two reserve in place; Oil spill and mobilization fund for emergency SAR service. The two reverse are meant to cushion against any emergency that might arise due to oil spill in our Ocean and inland waters. The Authority has policy to gradually build this reserves annually. All held in Kenya Commercial bank savings account.

k) Changes in accounting policies and estimates – IPSAS 3

The Authority recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical. There was no change in any accounting policy during the financial year.

l) Employee benefits – IPSAS 25

Retirement benefit plans

The Authority provides retirement benefit for its employees. Defined contribution plans are post-employment benefit plans under which the Authority pays fixed contributions into a separate entity (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.

The scheme is being administered by Alexander Forbes Retirement Funds (Pension and Sections)

Rate of contribution is;-

- Self-7.5% of basic pay
- Employer 15% of basic pay

m) Foreign currency transactions – IPSAS 4

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the weekly CBK mean exchange rate. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

n) Related parties – IPSAS 20

The Authority regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Authority, or vice versa.
The Authority regarded the Ministry of Transport And Infrastructure and Board of directors as related parties during the year. The following are transaction with related party for the year;

- Ministry of Transport And Infrastructure-Received grant Ksh 0.00
- Board of directors-Incurred the following cost for the board Ksh.58,786,378

NOTES TO THE FINANCIAL STATEMENTS (Continued)

o) 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 amount at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

p) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

q) Significant judgments and sources of estimation uncertainty – IPSAS 1

The preparation of the Authority'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.

Estimates and assumptions

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

Useful lives and residual values

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

- The condition of the asset based on the assessment of experts employed by the Authority
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (continued)

Fixed Assets are stated at cost or valuation less accumulated depreciation/amortisation.

Depreciation and amortisation is calculated on a straight line method.

The Annual depreciation/amortisation rates as stated below:-

i.	Motor Vehicles	20%
ii.	Computers and IT Equipment	33.3%
iii.	Furniture & Equipment	12.5%
iv.	Software	33.3%
v.	Boats	12.5%

As at the end of the Financial Year 2016/2017 fully Depreciated Assets amounted to

Kshs. 142,961,154.

r) Subsequent events – IPSAS 14

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017.

s) Taxation

Kenya Maritime Authority is a Government Agency fully owned by Ministry of Transport, Infrastructure & Urban Development thus exempt from Income Tax.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. Levies

Description	2016-2017 Kshs.	2015-2016 Kshs.
Merchant shipping levy	1,296,803,176	912,758,848
Collection cost (KRA commission)	30,800,069	21,678,957
Total Levies	**1,327,603,245**	**934,437,805**

The Merchant Shipping levy is a charge on all imported goods destined for the local market (Kenya) and export goods that are sea bound. The levies are collected by Kenya Revenue Authority on behalf of Kenya Maritime Authority through an agency agreement. The fees are based on the Fourth schedule of the Merchant Shipping (Fees) Regulations (2011).

4. Government grants

Description	Date	2016-2017 Kshs.	Date	2015-2016 Kshs.
Ministry of Transport and Infrastructure				
			25/09/2015	12,744,000
			01/02/2016	12,544,000
	16/12/2016	25,488,000	01/02/2016	12,744,000
	27/06/2017	(25,488,000)	27/06/2016	12,744,000
Total Government grants		-		**50,776,000**

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income KShs	Amount deferred under deferred income KShs	Amount recognised in capital fund. KShs	Total grant income during the year KShs	2015-2016 KShs
Ministry of Transport, Infrastructure, Housing and Urban Development	0	0	0	0	50,776,000
Total	**0**	**0**	**0**	**0**	**50,776,000**

Government Grants are funding received from the Government of Kenya Exchequer through the parent ministry (Ministry of Transport, Infrastructure, Housing and Urban Development) to cater for recurrent and capital expenditure. It is based on the approved budgeted amount.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. Rendering of service

Description	2016-2017 Kshs.	2015-2016 Kshs.
Boat survey fees	6,999,127	7,067,157
Shipping agents fees	5,385,060	5,080,565
Total Rendering of Service Income	**12,384,187**	**12,147,722**

Boat survey fees are charges for inspection of ships and issuance of requisite certificates in accordance to First and Second schedules of the Merchant Shipping (Fees) Regulations (2011).

Shipping agents fees are the oversight and monitoring fees through issuance of requisite certificates in respect of Cargo consolidators, Shipping agents and Shipping lines in accordance to the Fourth schedule of Merchant Shipping (Fees) Regulations (2011).

6. Finance Income-External Investment

Description	2016-2017 Kshs.	2015-2016 Kshs.
Interest income from fixed deposits	87,766,959	103,284,573
Total Finance Income	**87,766,959**	**103,284,573**

Interest income from deposits are revenue earned on placing surplus funds in fixed deposits with Commercial Banks at competitively sought return rates.

7. Other Income

Description	2016-2017 Kshs.	2015-2016 Kshs.
Agency fee	1,441,893	2,243,158
Rental	738,449	674,944
Sale of books	765,670	950,000
Sale of tender document	3,000	43,000
Others	3,629,660	1,391,604
Total Other Income	**6,578,673**	**5,302,706**

Agency fees are revenue earned from acting as a collection agent for the Government of DRC in respect to levy on cargo destined/from the Democratic Republic of Congo (DRC). Rental income is earned from subletting our Head Office space to the Government of DRC's office (OGEFREM). Sale of books are revenue earned from sale of curriculum books.

8. Gain on sale of assets

Description	2016-2017 Kshs.	2015-2016 Kshs.
Cost of the asset	2,278,516	-
Accumulated depreciation	2,278,516	-
Net book value	-	-
Proceeds	**98,460**	-
(Loss)/Gain on disposal	**98,460**	-

Sale of assets are funds received from disposal of Assets as recommended by the disposal committee.

9. Foreign currency exchange gain

Description	2016-2017 Kshs.	2015-2016 Kshs.
Gain on foreign exchange transaction	343,121	286,583
	343,121	**286,583**

Foreign currency exchange gain are obtained from exchange differences in revenues received/payments made in foreign currencies. The Authority's Merchant Shipping (Fees) Regulations (2011) indicates fees in USD.

10. Employee costs

Description	2016-2017 Kshs.	2015-2016 Kshs.
Basic Salaries	167,248,624	144,003,484
House Allowances	30,181,426	25,563,226
Other Allowances	6,828,010	5,921,550
Leave Allowances	9,124,291	2,914,479
Commuter Allowances	19,355,699	16,194,065
Staff Wages	6,630,863	10,593,058
Internship	928,115	1,733,814
Entertainment	347,568	360,000
Staff Training	180,145,891	128,045,622
Induction and Orientation	627,050	17,800
Pension Expenditure	37,475,266	23,385,015
Recruitment	1,460,548	36,800
Total Employee Costs	**460,353,351**	**358,768,913**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. Board of Directors costs

Description	2016-2017 Kshs.	2015-2016 Kshs.
Airfare	15,709,877	11,373,245
Allowance and other expense	41,173,492	35,911,406
Chairman's Honoraria	505,806	960,000
Total Board of Directors Costs	**57,389,175**	**48,244,651**

12. Purchase of Water & Electricity

Description	2016-2017 Kshs.	2015-2016 Kshs.
Water	755,148	974,554
Electricity	4,017,576	2,893,364
Total Purchase of Water & Electricity	**4,772,724**	**3,867,918**

13. Repairs and Maintenance

Description	2016-2017 Kshs.	2015-2016 Kshs.
Motor vehicle and Boats	2,336,185	933,154
Computer	3,065,546	1,208,133
Building	3,721,947	1,722,081
Total Repairs and Maintenance	**9,123,678**	**3,863,368**

14. General Expenditure

Description	2016-2017 Kshs.	2015-2016 Kshs.
Domestic and Overseas Air Travel	37,614,339	39,356,605
Duty Travel - Domestic and Foreign	89,330,791	66,195,601
Conference and Seminars	82,295,469	29,314,551
Advertising	15,840,547	9,779,585
Publicity & Awareness	106,679,870	64,890,008
Medical and Group Accident Cover	34,292,764	19,834,735
Office Rent	11,918,185	9,381,524
HIV and AIDs related Awareness	5,045,251	3,470,649
Transport Hire	10,658,812	9,535,443
Fuel Costs	2,161,688	1,000,456
Library Expenses	706,017	595,784
Club Fees	-	300,000
Research and Development	12,456,690	13,226,780
Community Support	19,706,176	6,924,253
Bank Charges & Commissions	31,297,151	22,058,324
Security Services	6,960,870	6,410,189
Audit Fees	1,400,000	1,360,000
Professional & Consultancy Fees	25,988,691	9,127,139
Insurance	5,176,075	3,239,859
Legal Fees	1,127,189	-
Marine Safety & Env. Protection	3,118,650	821,359
Office Incidentals	4,232,686	3,450,732
Uniform and Clothing	2,306,816	365,924
Office Carpet and Curtain Cleaning	4,851,933	3,361,732
Entertainment	4,792,103	357,547
Printing and Stationery	4,043,866	4,267,444
Other Admin Expense	4,895,996	824,582
Communication Costs	7,790,488	8,144,736
Total General Expenditure	**536,689,113**	**337,595,541**

15. Depreciation and Amortization Expense

Description	2016-2017 Kshs.	2015-2016 Kshs.
Property, Plant and Equipment	32,699,139	26,139,781
Intangible Assets	7,518,395	12,527,047
Total Depreciation and amortization	**40,217,534**	**38,666,828**

16. Cash and Cash Equivalents

Description	2016-2017 Kshs	2015-2016 Kshs
Current Account	51,645,152	85,282,781
On-call Deposits	200,000,000	-
Fixed Deposits Account	850,000,000	937,968,322
Others	926,978	70,720,599
Total Cash and Cash Equivalents	**1,102,572,130**	**1,093,971,702**

16 (a). Detailed Analysis of the Cash and Cash Equivalents

Financial Institutions	Account Number	2016-2017 Kshs	2015-2016 Kshs
a) Current Account			
KCB Current Account (Ksh)	1101575093	49,168,893	70,096,748
KCB Current Account (Dollar)	1167698452	699,641	15,183,533
KCB Current Account-Kisumu (Ksh)	1111688923	2,500	2,500
NBK Current (Dollar)	02003057729100	1,774,118	-
Sub-Total		**51,645,152**	**85,282,781**
b) On-Call Deposits			
Kenya Commercial Bank		200,000,000	-
Sub-Total		**200,000,000**	-
c) Fixed Deposits Account			
Kenya Commercial Bank		350,000,000	275,000,000
Cooperative Bank of Kenya		500,000,000	662,968,322
Sub-Total		**850,000,000**	**937,968,322**
d) Others			
Petty Cash-Mombasa Office		25,585	3,743
Petty Cash-Lamu Office		-	48,025
Petty Cash-Turkana Office		-	7,459
KCB Savings Account	1107477549	901,393	70,661,372
Sub-Total		**926,978**	**70,720,599**
Grand Total		**1,102,572,130**	**1,093,971,701**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. Trade Receivable from exchange transactions

Description	2016-2017 Kshs	2015-2016 Kshs
Trade	12,235,509	10,520,773
Interest receivable	51,911,712	73,599,607
Prepayments	22,242,962	25,461,655
Others non trade	183,837,788	862,676
Less: Provision for Doubtful Debts	(4,061,057)	-
Total Trade Receivable from Exchange transactions	**266,166,914**	**110,444,711**

18. Receivable from non-exchange transactions

Description	2016-2017 Kshs	2015-2016 Kshs
MS Levy fees	124,811,848	64,653,146
Outstanding imprest	14,004,356	9,371,531
Directors Debts	1,981,559	-
Total Receivable from non-exchange transaction	**140,797,763**	**74,024,677**

19. Inventories

Description	2016-2017 Kshs	2015-2016 Kshs
General supplies	2,965,439	3,778,659
Publications & library books	469,347	842,684
Total Inventories	**3,434,786**	**4,621,343**

20. Mortgage Guarantees

Description	2016-2017 Kshs	2015-2016 Kshs
House Loan Guarantee	126,155,845	111,155,846
Car Loan Guarantee	30,500,000	25,500,000
Total Mortgage Guarantees	**156,655,845**	**136,655,846**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. Intangible Assets

	Intangible Assets Kshs	WIP Kshs	Total Kshs
As at 30 June 2016	73,885,545	2,549,600	76,435,145
Additions	1,661,213	2,275,749	3,936,962
Transfer	-	(87,500)	(87,500)
As at 30 June 2017	**75,546,758**	**4,737,849**	**80,284,607**
As at 30 June 2016	54,242,560	-	54,242,560
Charge for the year	11,716,158	-	11,716,158
Adjustment	(4,197,762)	-	(4,197,762)
As at 30 June 2017	**61,760,955**	-	**61,760,956**
NBV as at 30 June 2017	**13,785,803**	**4,737,849**	**18,523,651**
NBV as at 30 June 2016	**19,642,985**	**2,549,600**	**22,192,585**

ASSET DESCRIPTION	Purpose	ACQUISITION VALUE
Work In Progress	Bulk Digitization, EDMS, W/Flow Mgt	2,462,100
ERP Navision Upgrade-2016		2,275,749
TOTAL		**4,737,849**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. Property, Plant and Equipment

Assets	Land & Building	Motor vehicles	Computers & IT Equipment	Furniture & Equipment	Capital Work in Progress	Total
Cost or Valuation	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
As at 1 July 2015	**203,005,150**	**28,009,288**	**49,892,259**	**67,636,530**	**-**	**348,543,227**
Disposal	-	(4,000,000)	-	-	-	(4,000,000)
Additions	4,483,214	16,766,048	375,999	45,859,730	-	67,484,991
Re allocation	-	-	-	-	-	-
As at 30 June 2016	**207,488,364**	**40,775,336**	**50,268,258**	**113,496,260**	**-**	**412,028,218**
Disposal			(2,004,027)	(368,489)	-	(2,372,516)
Additions	35,180,040	13,825,000	17,674,495	19,904,784	50,916,014	137,500,333
Re allocation	58,333		**(200)**		-	58,133
As at 30 June 2017	**242,726,737**	**54,600,336**	**65,938,526**	**133,032,555**	**50,916,014**	**547,214,168**
Depreciation and impairment						
As at 1 July 2015	-	**15,255,306**	**41,528,854**	**42,261,109**	-	**99,045,269**
Disposal	-	(4,000,000)	-	-	-	(4,000,000)
Charge for the year	-	7,631,807	6,755,684	11,752,291	-	26,139,782
Adjustments	-	-	-	-	-	-
As at 30 June 2016	-	**18,887,113**	**48,284,538**	**54,013,400**	-	**121,185,051**
Disposal	-	-	(1,910,027)	(368,489)	-	(2,278,516)
Charge for the year	-	10,396,807	8,576,546	13,725,786	-	32,699,139
Adjustments	-		**(887,190)**	-	-	(887,190)
As at 30 June 2017	-	**29,283,920**	**54,063,867**	**67,370,697**	-	**150,718,484**
Net Book values						
As at 30 June 2017	**242,726,737**	**25,316,416**	**11,874,659**	**65,661,858**	**50,916,014**	**396,495,684**
As at 30 June 2016	**207,488,364**	**21,888,223**	**1,983,720**	**59,482,860**	**-**	**290,843,167**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. Property, Plant and Equipment (Continued)

As at close of financial year assets amounting to Kshs 142,961,154 were fully depreciated as indicated in the table below:

DESCRIPTION	COST	ACCUMULATED DEPRECIATION	NBV
Motor Vehicles	13,517,318	13,517,318	-
Computers	47,982,231	47,982,231	-
Furniture & Equipment	31,980,390	31,980,390	-
Software	49,481,215	49,481,215	-
TOTAL	**142,961,154**	**142,961,154**	-

23. Trade and other payables from exchange transaction

Description	2016-2017 Kshs	2015-2016 Kshs
Trade Payables	57,121,528	39,067,804
Audit Fees Payable	1,400,000	1,400,000
Staff payables	185,662	22,174
Statutory	1,786,946	1,796,340
Other payable	13,684,423	1,145,612
Total	**74,178,558**	**43,431,930**

24. Gratuity

Description	2016-2017 Kshs	2015-2016 Kshs
As at 1 July	9,172,726	12,683,042
Charge for the year	4,725,297	5,074,452
payment during the year	(8,051,209)	(8,584,768)
As at 30 June	**5,846,814**	**9,172,726**

25. Cash Book Overdraft

Description	2016-2017 Kshs	2015-2016 Kshs
National Bank of Kenya (USD)	-	1,757,044
Total	-	**1,757,044**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. Cash generated from operations

	Note	2016-2017 Kshs	2015-2016 Kshs
Surplus for the year before tax		326,229,070	315,228,170
Adjusted for:			
Depreciation	13	40,217,534	38,666,828
Loss on Disposal of Non- Current Asset	8	(98,460)	-
Foreign Exchange (Gain) Loss	9	(343,121)	(286,583)
Interest Income	6	(87,766,959)	(103,284,573)
		278,238,064	**250,323,842**
Working Capital adjustments			
Increase in Trade Receivables	17&18	(222,495,289)	(10,240,749)
Increase in Trade Payables	23	30,746,628	10,738,982
Decrease in Gratuity	24	(3,325,913)	(3,510,316)
Decrease in Inventories	19	1,186,558	1,090,987
Net cash generated from operating activities		**(193,888,016)**	**(1,921,096)**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. Financial Risk Management

25 FINANCIAL INSTRUMENTS

Capital risk management

The Authority manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Authority consists of cash and cash equivalents, share capital and retained earnings.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 1 to the financial statements.

	2017 Kshs	2016 Kshs
Categories of financial instruments		
Financial assets		
Receivables including cash and cash equivalents	1,511,587,600	1,278,441,090
	=======	=======
Financial liabilities		
Payables	57,120,684	39,067,804
	=======	=======

Financial risk management objectives

The Authority's activities expose it to a variety of financial risks including credit and liquidity risks, effects of changes in foreign currency and interest rates and changes in market prices of the Authority's services. The company'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 Authority does not hedge any risks and has in place policies to ensure that credit is extended to customers with an established credit history.

Foreign currency risk management

The Authority undertakes certain transactions denominated in foreign currencies. Therefore, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Foreign currency risk management (Continued)

	2016 Kshs	2015 Kshs
Assets		
Trade and other receivables		
US Dollars	10,544,343	28,133
Due from related companies		
US Dollars	-	-
Bank and cash balances		
US Dollars	1,004,652	206,151
Liabilities		
Bank overdraft		
US Dollars	-	-
Due to related companies		
US Dollars	-	-

10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

At 30 June 2017, if the Kenya Shilling had weakened/strengthened by 10% against the relevant foreign currencies with all other variables held constant, the impact on pre-tax profit for the period would have been lower /higher by Kshs 2,397,083 (2015: Kshs 2,483,422) .

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the period end exposure does not reflect the exposure during the period.

Credit risk management

Credit risk refers to the risk that customers will default on its contractual obligations resulting in financial loss to the Authority.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Authority's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Authority's management based on the company policy of providing for debts that are over ten months old.

The credit risk on trade receivables is limited because the customers are known customers with high credit ratings.

The credit risk on liquid funds with financial institutions is also low, because the counter parties are banks with high credit-ratings.

The Authority does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Trade receivables

The Authority's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The company does not have significant credit risk exposure to any single counterparty. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

The amount that best represents the Authority's maximum exposure to credit as at 30 June 2017 and 30 June 2016 is made up as follows

2017

	Fully Performing Kshs	**Past due Kshs**	**Impaired Kshs**
Cash and cash equivalents	1,100,680,780	-	-
Trade receivables	12,116,596	-	-
	1,112,797,376	-	-

2016

	Fully Performing Kshs	**Past due Kshs**	**Impaired Kshs**
Cash and cash equivalents	1,192,082,556	-	-
Trade receivables	10,520,773	-	-
	1,202,603,329	-	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Cash and cash equivalents are fully performing.

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low. The debt that is overdue is not impaired and continues to be paid.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the company's short and medium-term funding and liquidity management requirements. The Authority manages liquidity risk by maintaining banking facilities through continuous monitoring of forecast and actual cash flows. The company can also borrow from its ultimate parent company in the short term further reducing its liquidity risk.

The table below analyses the company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

2017	Less than 1 month Kshs	Between 1-3 months Kshs	4 months Kshs	Over 5 months Kshs	Total Kshs
Trade payables	40,542,047	4,239,256	5,287,132	7,052,249	57,120,684
	40,542,047	4,239,256	5,287,132	7,052,249	57,120,684

2016	Less than 1 month Kshs	Between 1-3 months Kshs	4 months Kshs	Over 5 months Kshs	Total Kshs
Trade payables	30,559,918	7,095,904	782,399	629,583	39,067,804
	30,559,918	7,095,904	782,399	629,583	39,067,804

XVI PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	**Issue / Observations from Auditor**	**Management comments**	**Focal Point person to resolve the issue *(Name and designation)***	**Status: *(Resolved / Not Resolved)***	**Timeframe: *(Put a date when you expect the issue to be resolved)***
1.	Trade other payables from exchange had been arrived at after set-off against various debit balances in contravention of IPSAS 1.	Necessary adjustments made	Financial Accountant	Resolved	-
2.	Bank reconciliation statements had reconciling items with stale cheques and unrecorded receipts.	These were direct deposits made to the bank accounts.	Financial Accountant	Resolved	-
3.	Sitting allowances paid to several board members but minutes of meetings were not presented for Audit. Board attendance to ASK shows, KECOSO games and boat launches in Kisumu and Lamu which are administrative functions for execution by management.	Minutes available	Corporation Secretary and Head of Legal Services	Not resolved	December 2017
4.	Print, out-door and television advertisements contrary to circular Ref. MIC/G/2/4. No documentary evidence showing the media firms were identified and	All the laid down procurement laws were followed.	Procurement Manager	Not Resolved.	December 2017

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue *(Name and designation)*	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
	selected in accordance to PPDA 2015.				
5.	Foreign travel without authority from the PS of parent ministry contrary to Revised Code of Regulations, 2006 and Circular OP/CAB.9/9.	All travels by the Director General and Board of Directors approvals were sought	Corporation Secretary and Head of Legal Services	Not Resolved	December 2017.

Guidance Notes:

(i) Use the same reference numbers as contained in the external audit report;

(ii) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;

(iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;

(iv) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.

Ag. Director General **Chairman of the Board**

Date.. Date....................................

XVIII. Appendix 1: PROJECTS IMPLEMENTED BY KENYA MARITIME AUTHORITY

Status of Projects completion

Project	Total project Cost	Total expended to date	Completion % to date	Sources
CONSTRUCTION OF KMA HQS	1.8B	**233.4M**	2%	KMA
MULTINATIONAL LAKE VICTORIA COMMUNICATION & TRANSPORT PROJECT	529M	**0**	0%	AFDB /KMA
INTERGRATED COASTAL SECURITY SURVEILANCE SYSTEM	200M	**0**	0%	IMO/DENMARK/GOK
PATROL BOATS MSA, KSM TURKANA	50M	**0**	80%	KMA/GOK
GMDSS SYSTEM	14M	**14M**	100%	KMA/GOK
PURCHASE FOR MOTOR VEHICLE	13M	**13.8M**	100%	KMA/GOK
CONSTRUCTION OF KISUMU OFFICE	12M	**0**	100%	KMA/GOK
LAND FOR SAR	80M	**21.1M**	30%	KMA/GOK
ERP 2016 Upgrade	12.5M	**2.2M**	50%	KMA/GOK
Digitization	6M	**0**	80%	KMA/GOK
Server Virtualization & storage	42.5M	**12.1M**	100%	KMA/GOK

XIX. Appendix 2: INTER-ENTITY TRANSFERS

	ENTITY NAME:	**KENYA MARITIME AUTHORITY**		
	Break down of Transfers from the State Department of Transport			
	FY 16/17			
a.	Recurrent Grants			
		Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
		16/12/2016	25,488,000	FY2016/2017
		27/06/2017	-25,488,000	FY2016/2017
		Total	-	

The above amounts have been communicated to and reconciled with the parent Ministry

Finance Manager
Kenya Maritime Authority

Sign --------------

Head of Accounting Unit
Ministry of Transport, Infrastructure, Housing and Urban Development

Sign--------------