ANNUAL ACCOUNTS AND AUDIT REPORT FOR THE YEAR ENDED 30TH JUNE 1999

Kenya Ports Authority

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Ref. FGM/2/333/02

Date: 27th August 2001

Hon. W.M. Mudavadi EGH, MP
Minister for Transport & Communications
P.O. Box 52692
NAIROBI

Dear Hon Mudavadi,

RE: KENYA PORTS AUTHORITY ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 1999

On behalf of the Board of Directors of Kenya Ports Authority I have the honour to present the Statement of Accounts (together with Audit Report) for the period ended 30th June, 1999 in accordance with the provisions of Section 20(3) of Kenya Ports Authority.

In conformity with the provisions of Section 20(2) same Act, the Statement of Accounts were on 31st August 1999 submitted to Auditor General (Corporations) for Audit.

Yours Sincerely

JONATHAN D. MTURI
CHAIRMAN

Encls.

KENYA PORTS AUTHORITY

INCOME AND EXPENDITURE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE, 1999

	1998/99 KSHS	1997/98 KSHS
A. REVENUE		
Marine	626,810,421	697,666,502
Stevedoring	2,326,438,209	2,582,882,680
Shorehandling	3,081,891,400	3,384,167,311
Storage	890,176,325	842,397,317
Miscellaneous	1,792,101	1,761,475
Non-Operating Revenue	229,454,616	256,211,728
Total Revenue	**7,156,563,072**	7,765,087,013
B. EXPENDITURE		
Marine	960,697,240	951,761,963
Conventional Cargo	1,569,587,877	1,669,406,712
Containerised Cargo	1,533,723,884	1,217,921,207
Dry Ports	286,109,820	152,416,167
Administration	3,805,278,232	3,304,271,740
Foreign Currency Gain/Loss	8,101,131	10,370,020
Total Expenditure	8,163,498,184	7,406,147,539
Surplus/Loss Before Tax	(1,006,935,112)	359,939,474
Taxation	-	(313,118,610)
Transfer to Reserves	(1,006,935,112)	45,820,864

KENYA PORTS AUTHORITY
BALANCE SHEET AS AT 30TH JUNE, 1999

	NOTE	1998/99 KSHS	1997/98 KSHS
Assets Employed			
Net Fixed Assets	3	18,111,528,341	18,436,223,974
Work in Progress	3	112,179,417	1,354,170,726
Long Term Investments	4	697,210,014	713,371503
		18,920,917,772	20,503,766,203
Current Assets			
Stocks	5	1,939,242,824	1,419,747,554
Debtors	5	1,605,581,787	1,860,186,914
Cash and Bank		77,528,392	88,504,174
		3,622,353,003	3,368,438,642
Current Liabilities			
Loans - Current Portion	8	819,920,429	499,560,164
Trade Creditors		1,738,768,584	1,059,148,044
Tax		1,574,893,399	1,971,889,452
Bank Overdraft		553,003,072	827,126,127
		4,686,585,484	4,357,723,787
Net Current Assets		(1,064,232,481)	989,285,145
Pension Provisions	6	242,650,422	368,737,465
Total Net Assets	7	17,614,034,869	19,145,743,593
Financed by:-			
Distributable Reserves	7	(498,885,973	553,143,185
Capital Reserves	7	15,755,962,336	15,715,209,014
Foreign Currency Fluctuation Reserve	7	(49,743,898	276,673,904
		15,207,332,465	16,545,026,103
Loan Capital	8	2,406,702,404	2,600,717,490
		17,614,034,869	19,145,43,593

B.M.M. ONDEGO
MANAGING DIRECTOR

J.D.MTURI
CHAIRMAN

CASH FLOW STATEMENT FOR THE YEAR ENDED 30th JUNE,1999

	NOTE	KSH M	KSH M
Net Cash Inflow from Operating activities	(a)		1,293.61
Returns on Investments and servicing of finance			
Non-operating Income		229.45	
Interest Paid on debt servicing		(206.72)	
Net Cash Inflow on Return on Investment and Servicing of Finance			22.73
Taxation Paid			(390.00)
Investment Activities			
Purchase of fixed assets and W.I.P.		(356.12)	
Advance to KFS		(41.09)	
Deduction in Investment		16.0	
Advance to MOTC		(4.0)	
Net Cash outflow from Investing Activities.			(385.21)
Finance Activities			
Repayment of amounts borrowed		((208.47)	
Repayment of amounts on borrowed Machine		(61.41)	
Net Cash outflow from Financing Activities			(269.88)
Increase in Cash and Cash equivalents.	(b)		271.25

SUPPLEMENTAL DISCLOSURE OF CASHFLOW FORMATION.

a. NET CASHFLOW FROM OPERATING ACTIVITIES	K.SHS
Operating profit before taxation and exceptional items	(1,006,935,113)
Adjustment for Depreciation	1,566,324,032
Write off	568,492,195
Interest Paid	206,724,288
	116,385,198
Interest Provision	8,101,131
Foreign Exchange Movement	(229,454,616)
Other Income	
Decrease/Increase:	(519,495,270)
Stock	254,605,127
Debtors	328,861,697
	1,293,608,669
Creditors	
b. INCREASE IN CASH AND CASH EQUIVALENTS	
Opening balance 1.7.98	(738,621,952)
Net cash Inflow during the year before adjustment for the effect of foreign exchange movement	271,248,403
Effect of foreign rate changes	(8,101,131)
Balance as at 30th June 1999	(475,474,680)

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE, 1999

NOTE: 1. **ACCOUNTING POLICIES**

(a) **BASIS OF ACCOUNTING**

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

(b) **REVENUE RECOGNITION**

Revenue and expenditure are accounted for on accrual basis.

(c) **ACCRUALS**

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

(d) **FIXED ASSETS AND DEPRECIATION**

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

CLASS	RATES(%)
Dredging	2.5
Land and Building	2.5
Rail Lines	2.5
Roads	2,5
Quays	2.5

Cranes	10.0
CLASS	**RATES(%)**
Forklift Trucks	10.0
Tractors	20.0
Vehicles	20.0
Tugs/Boats	20.0
Telecom Equipments	5.0
Data Processing Equipment	20.00

(e) **CONVERSION OF FOREIGN CURRENCIES**

The foreign currency items are expressed in Kenya Shillings at the mean rates of exchange ruling at the balance sheet date. Transactions occuring during the year are accounted for at the rates ruling when the transactions take place. The resulting realised profits or losses are dealt with in the Income and Expenditure Account. The unrealised gain and losses are adjusted through a forex reserve account.

(f) **BAD DEBTS PROVISION.**

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

(g) **STOCK OBSOLESCENCE PROVISION**

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

NOTE NO: 2 STATEMENT NO.1

REVENUE AND EXPENDITURE ACCOUNTS FOR THE YEAR 1998/99

1997/98			1998/99		
AMOUNT KSHS M	%	REVENUE	AMOUNT KSHS.M	%	
697.67	8.99	Marine	626.81	8.76	
2,582.88	33.26	Stevedoring	2,326.44	32.51	
3,384.17	43.58	Shorehandling	3,081.89	43.06	
842.40	10.85	Storage	890.18	12.44	
1.76	0.02	Miscellaneous	1.79	0.02	
256.21	3.30	Non Operating Revenue	229.45	3.21	
7,765.09	100.00	Total Revenue	7,156.56	100.00	
		EXPENDITURE			*
3,194.09	41.14	Staff Costs	3,270.89	40.07	45.70
1,126.05	14.50	Materials	1,569.77	19.23	21.93
1,632.37	21.02	Depreciation	1,566.32	19.19	21.89
226.10	2.91	Utilities	205.38	2.51	2.87
	-	Hire of Equipment	81.85	1.00	1.14
192.82	2.48	Administration Exp	185.13	2.27	2.59
158.94	2.05	Personnel & Relations	229.44	2.81	3.21
875.77	11.28	Finance and Legal	1,054.72	12.92	14.74
7,406.14	95.38	Total Exp.	8,163.50	100.00	114.07
358.95	4.62	Surplus/Loss	(1,006.94)	-	14.07
7,765.09	100.00	TOTAL REVENUE	7,156.56		100.00

* Expenditure costs as a percentage of Revenue earned during the year.

STATEMENT: 2

NOTE:3 FIXED ASSETS MOVEMENT SCHEDULE AS AT 30TH JUNE 1999

	Land & Buldings	Motor Vehicles,Boat, ForkliftsTugs & Cranes	Equipment, Services & Systems	Roads,Bridge, Tracks,Quay, Jetties,Wharves, Breakwaters Bridging	TOTAL
Balance as at 1.7.1998	8,308,578,200	10,458,311,500	791,250,768	7,377,448,475	26,935,588,943
Additions	243,911,465	694,849,452	8,691,898	327,418,510	1,274,871,325
Transfers	-	-	-	-	-
Disposals	-	-	-	-	-
Adjustments	(456,000,000)	643,631,502	(410,525,168)	204,950,000	(17,943,666)
Balances as at 30.6.1999	8,096,489,665	11,796,792,454	389,417,498	7,909,816,985	28,192,516,602
Depreciation					
Balance as at 1.7.1998	755,287,297	5,909,563,660	372,447,071	1,462,066,941	8,499,364,969
Charge for the year 1998/99	202,757,512	964,023,035	43,004,014	356,359,471	1,566,324,032
Transfer					
Disposals					
Adjustments	314,136	220,343,953	(197,689,159)	(7,669,670)	15,299,260
Accumulated Depreciation 30.6.1999	958,358,945	7,093,930,648	217,761,926	1,810,936,742	10,080,988,261
N.B.V.as at 30.6.99	7,138,130,720	4,702,861,806	171,655,572	6,098,880,243	18,111,528,341
N,B.V. as at 30.6.98	7,553,290,903	4,548,747,840	418,803,697	5,915,381,534	18,436,223,974
W.I.P. 30.6.99	9,327,688	33,657,551	919,876	68,274,302	112,179,417
W.I.P 30.6.98	68,781,310	411,372,829	21,348,282	233,638,305	1,354,170,725

NOTE: 4 Investments.

(a) Pension Funds invested in Fixed Deposit accounts with Housing Finance of Kenya and Government Stocks amount Kshs.568,442,483.82

(b) The Authority's Fixed Deposit Account with Housing Finance Company Kenya Limited which acts as guarantee for Mortgage Loans extended to employees amounts to Kshs.22,821,030.24

(c) The Cost of a plot which was bought in the form of a Company and whose certificate of incorporation was used to incorporate M/s.Kenya Ferry Services Ltd., is also held as an investment in the books under Bunty Estate Kshs.22,500.000.00

(d) Also included under investments is the cost of equity share holding in the following institutions.

(i) Kenya National Shipping Line Ltd. Kshs.54,346,500.00

The Investment in Kenya National Shipping Line includes Kshs.19,335,000.00 advance to Kenya National Shipping which was Capitalised during restructuring of the Company's share capital. This resulted into the Authority's investment increasing to Kshs.54,346,000.00

(ii) Consolidated Bank of Kenya Ltd Kshs.29,100,000.05

(e) Deposits in collapsed Financial Institutions totalling Kshs.55,785,918.00 and related accrued interest totalling Shs.45,471,383.30 are still outstanding in the books of Accounts. Provision for these doubtful investments were made in 1992 by charging the Income and Expenditure Account with the loss. The Management is considering to recommend these doubtful debts for write-off.

NOTE: 5. **CURRENT ASSETS.**

(a) Store Stock valuation.

These are stated at cost (weighted average) or net realisable value less provision for obsolence and deterioration which has been held at 5% of actual stock holding at the end of the financial year.

	Stock Kshs.m	Provision Kshs.m	Rate Balance Kshs.m
Balance on at 30.6.99	2,041.31	(102.06)	1,939.25
Balance at 30.6.98	1,494.47	(74.72)	1,419.74

(b) **DEBTORS**

The balance includes bills outstanding in respect of Marine and Cargo handling services rendered to Port Users upto 30.6.1999. It also includes staff and other debts. A specific provision for irrescoverable debts totalling Kshs.222.67m has been made in addition to the normal bad and doubtful provision of 5% outstanding debtors balance.

	30.6.99 Kshs.m	30.6.98 Kshs.m
Cargo Debtors	280.40	476.50
Marine Debtors	337.60	353.06
Total Trade Debt	618.00	729.56
Less Provision for bad and doubtful debtors	(236.64)	(83.51)
Net Trade Debt	381.36	746.05
Staff Debt	250.09	264.02

MOTC Advance	300.28	296.28
Kenya Ferry Services	585.88	422.80
Customs Guarantee	3.00	
Lasco Club	2.38	5.15
Mobilisation A/C	52.13	109.10
Prepaid Insurance	0.04	0.06
Dishonoured Cheques	19.69	11.08
Other debtors	7.95	2.65
Electricity Subconsumers	2.78	1.99
	1,605.58	**1,860.18**

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

The balance consists of the following:-

	30.6.99	30.6.98
Bank Overdraft	(553.00)	827.12
Cash at Bank	70.59	86.79
Cash with Crown Agents	4.08	0.47
Cash at Hand	2.85	1.24
	77.52	**86.50**

(ii) Overdraft Facillity.

Management sought and was granted authority by the Treasury to negotiate overdraft facilities with National Bank of Kenya. The Bank agreed to grant the facility to the maximum sum of Shs.800.00million at an interest rate of 26.5% per annum on the balance drawn. The facility was rolled - over for use during the financial year ended 30th June 1999.

NOTE: 6. Provisions.

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

	30.6.99 Kshs.m	30.698 Kshs.m
Staff Pension	252.27	367.76
Staff Gratuity	(9.62)	0.98
	242.65	368.74

STATEMENT NO.3

NOTE: NO.7

RESERVES	DISTRIBU TABLE KSHS.M	CAPITAL KSHS.M	FOREIN CURRENCY FLUCTUATION KSHS.M	TOTAL KSHS.M
Balance as at 7.1.98	553.14	15,715.20	276.67	16,545.01
Adjustment	(45.10)	40.76	-	(4.34)
Excess Depreciation Transferred to P & L A/C	-	-	-	-
Exchange variations on Kshs.against strong currencies	-	-	(326.41)	(326.41)
Retained Loss for the year	(1,006.93)	-	-	(1,006.93)
Balance as at 30.6.99	(498.89)	15,755.96	(49.74)	15,207.33

LOA

NOTE: NO. 8 STATE

LOAN	DENOMINATION	INTER RATE
EIB LOAN	JY/BF/NLG	
NIO LOAN	NLG	
ON-LENT LOAN DUTCH	KSH	
FRENCH LOCAL	KSH	
BRITISH 101 M	KSH	
BRITISH CRANE	KSH	
BRITISH PIF	KSH	
FRENCH FOREIGN	KSH	
BELGIUM	KSHS	

NOTE: 9 **Taxation**

(a) In 1992 the Commissioner of Income Tax advised the Authority that it was not tax exempt. Consequently, taxes were levied on Kenya Ports Authority retrogressively for six years to 1986. Furthermore, Kenya Ports Authority was required to pay penalties and interest which had accumulated all these taxes. There payments had not been budgeted for as the Authority had continued to operate from inception in 1978 on the basis that it was not subject to the provisions of the Income Tax Act Cap. 470.

(b) Tax is charged on the surplus for the year after adjustments have been made in accordance with tax laws.

	1998/99 KSHS.M	1997/98 KSHS.M
Tax Charge/Loss C/F	16.75	313.11

The final tax assessment on this year's surplus will be based on the audited accounts for the year under review.

NOTE: 10 **Contingent Liabilities**

		KSHS.M
(i)	Penalty and interest on back-tax up to 1996	2,034
(ii)	Shortfall in Pension Contribution	3,061.00
(iii)	Construction and Civil Works	895.08
(iv)	Consultants for Civil Works	327.01
(v)	Legal (Mtongwe Ferry disaster Case and others).	395.00

NOTE: 11 **YEAR 2000 COMPLIANCE**

The Authority's Equipments and Computer Systems have been tested and were certified Y2K ready by 31st August, 1999.

REPORT OF THE AUDITOR GENERAL (CORPORATIONS) ON THE ACCOUNTS OF KENYA PORTS AUTHORITY FOR THE YEAR ENDED 30 JUNE 1999

REPORT OF THE AUDITOR GENERAL (CORPORATIONS) ON THE ACCOUNTS OF KENYA PORTS AUTHORITY FOR THE YEAR ENDED 30 JUNE 1999

I have examined the Accounts of Kenya Ports Authority for the year ended 30 June 1999 in accordance with the provisions of Section 29 (2) of the Exchequer and Audit Act (Cap 412). I have obtained all the information and explanations required for the purpose of the audit. Proper books of account have been kept and the Accounts, which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets, are in agreement therewith and comply with the Kenya Ports Authority Act (Cap 391).

In my opinion, and subject to the matters set out herebelow, the Accounts, when read together with the Notes thereon, fairly present the Authority's financial state of affairs as at 30 June 1999 and of its deficit and cash flows for the year then ended.

1. EXTENSION AND REFURBISHMENT OF KIPEVU HEADQUARTERS

In August 1994, and apparently without invitation of open competitive tenders, the Authority appointed a firm of architects to be Lead consultants for the extension and refurbishing of the Kipevu existing Headquarters building Project. The month following their selection, the Lead Consultant appointed, on a selective basis, three other consultants to design the Project which basically involved construction of extra floors onto the existing Headquarters building. In December 1994, the consultants forwarded the related architectural drawings which the Authority duly accepted and on 5 January 1995, the Lead Consultant instructed the other consultants to proceed and complete the Project. About two months later on 10 March 1995 the consultants presented the Authority with Bills of Quantities, thus bringing the Project to tender stage. Records, however, show that the Project was designed without properly establishing whether the existing foundation of the present building could support extra weight of the additional floors and without prior authority of the parent Ministry and the Treasury. There was also no budgetary provision for the expenditure in the 1995/96 or 1996/97 Estimates of the Authority. Thereafter fee notes for Kshs.405,849,355 were raised by both the Lead Consultant and the other three consultants as follows:-

Lead Consultant	Kshs.147,445,658
Other Consultants	" 258,403,697
Total	" **405,849,355**

The fee notes were accepted by the Authority and a total amount of Kshs.42,000,000 paid in August 1995 but the Project was abandoned thereafter, apparently for being impracticable. Since the abandonment of the Project the consultants have been paid a further total amount of Kshs.289,377,164, thereby bringing total expenditure on the Project to Kshs.331,377,164 as at 28 February 2001. Available information also indicates that the Authority, having lost a civil court case against one of the consultants for a total claim of Kshs.197,973,267, has now entered into an agreement with that consultant to pay the balance of the amount due to the plaintiff at the rate of Kshs.5 million per month over a period of about 7 years. At this rate the Authority stands to lose an additional Kshs.309 million on the already abandoned Project. Arising from the foregoing, the total expenditure incurred on the Project of Kshs.331,377,164 as well as the expenditure anticipated to be incurred further of more than Kshs.309 million will most likely turn out to be waste of public funds.

2. FIXED ASSETS

The Balance Sheet Fixed Assets figure of Kshs. 18,115,528,341 as at 30 June 1999 includes value of some 26 plots of land irregularly allocated to individual developers without either the knowledge of the Authority or the approval of its Board. One of the 26 plots was transferred to a third party by an employee of the Authority while another plot was left out when six of the plots were surveyed and allocated to a third party evidently with the knowledge of the then Managing Director. Further the Authority also entered into a Lease Agreement with a private Company in 1994, in respect of plot number MSA/Block 1/400 measuring 1.434 hectares for a duration of 82 years at an annual rent of Kshs.241,560. In March 1998, the Lease Agreement was varied to allow the lessee to charge the property in favour of their financiers for a loan of US$.24,500,000. The consent was accordingly approved by the parent Ministry and accepted by the Authority. The lessee has since constructed permanent buildings on this property, a project which includes a way-leave and a conveyor belt system linking the terminal to movable ship loading and unloading equipment located on Berth 3, thus using extra space originally not covered in the leased land. It is not understood why the Authority accepted to have the property charged for a loan to the lessee thereby exposing the Authority to possible risk of losing the subject land in the event of default by the lessee. It is also not clear why the Authority accepted the very low annual rent of Kshs.241,560 while the current market rent rate for a property in the some locality is about Kshs.21 million per acre. In addition, available information indicates that while stevedoring charges, to all ships using Port facilities are levied at US$ 20 per ton as stipulated in Section 2 (10) of KPA Act, the Leasing Company was noted to be paying only US$ 2 per ton handled, thus resulting in a loss of US$ 18 per ton handled by this Company. With this arrangement and contrary to the requirements of the KPA Act, the Authority stands to lose quite substantially in terms of revenue accruing out of stevedoring charges due to this excessively low rate of charge of US$ 2 per ton.

3. SUPPLY OF REACH STACKERS

During the year 1997/98, the Authority entered into an agreement with a certain firm to supply four SISU 42 Ton Reach Stackers, Model 4227-5TL at a contract sum of Kshs.156,709,842 (US$2,541,804). The agreement provided for the shipment of the first 2 units within 6 to 8 weeks from the date of signing the agreement on 4 May 1998. The terms of payments included a two-years' credit facility at an interest rate of 2.5% and Kshs.23,257,506 (US$381,270.60) down payment upon confirmation of the order by supplying a bankers' guarantee and then six months moratorium from the date of shipment. Thereafter the balance was to be paid in six equal quarterly instalments of Kshs.21,965,423 (US$360,088.90) with interest. Although the agreement stated that interest would not be affected by the moratorium, the calculation of interest, however, started earlier than the delivery period of 6 to 8 weeks for the first 2 units thereby resulting in extra payment of interest of Kshs.5,509,582 (US$89,366.18). The justification for payment for this extra interest has not been provided.

4. <u>ENGINE OVERHAUL - VIP LAUNCH MKIZI</u>

The Authority obtained quotations, in a selective manner, from four companies on different dates between October 1998 and March 1999 for the overhaul of VIP Launch, Mkizi . The lowest bidder quoted Kshs.4,994,786 per engine, giving a contract sum of Kshs.9,989,672 for both the engines and included cost of spares totalling Kshs.3,670,025 whose cost per unit and number of spares involved was not indicated. On 9 April 1999, the same firm was awarded another contract to manufacture modified assembly of the manifolds of the same Launch at a contract sum of Kshs.8,954,828, again without competitive bids. On 8 April 1999 the Managing Director approved for the repair of centralizers and adjusters, or engine mountings of the same Launch Mkizi, at a cost of Kshs.2,557,799 by another company again without invitation of open competitive tenders. The Launch was repaired by the two companies and invoices totalling Kshs.21,409,083 were submitted to the Authority which settled the amounts between 3 June 1999 and 23 July 1999. Available information, however, indicates that the total cost of two new engines of the type that was repaired was only Kshs.3,697,650. The Authority would have saved a total of Kshs.17,711,433 if two new engines had been purchased instead of repairing the old engines. Under the circumstances, the propriety and the justification for the expenditure of Kshs.21,409,083 incurred on the overhauling of the engines for VIP Launch Mkizi cannot be confirmed.

5. <u>IRREGULAR PROCUREMENT OF GOODS</u>

During the year under review, the Authority without invitation of open competitive tenders, purchased 16 life rafts from a supplier at a total cost of Kshs.10,365,320. In March 2000 the same items were found in the stores intact in addition to stock of other rafts procured earlier. Apart from the fact that it was not clear how the suppliers were identified in the absence of open competitive bids, it has also not been explained why these items were bought when they were apparently not needed, thus tying up funds in stores which could become obsolete due to lapse of usable time. In addition, other purchases were made at a cost of Kshs.26,827,515, again without the invitation of tenders. Without open competitive tenders it has not been possible to confirm that the supplies were procured at the most competitive prices and that the stock were of immediate use.

6. <u>STOCKS AND STOCKS EVALUATION CONSULTANCY</u>

Between July 1996 and May 1999, the Authority appointed two firms to carry out an exercise of stores valuation and confirmation of existing balances as well as stores rationalisation for which both companies were paid a total of Kshs.14,049,537. Available stores records, however, revealed that the consultants, and without any explanation or justification, omitted to cover stores in some 53 sub-stores valued at Kshs.1,041,666,983, an omission which led to subsequent exclusion of these stores from the Balance Sheet values as at 30 June 1999. Apart from the fact that the Authority has not explained how the contracted firms were identified or the contract sums arrived at, the Authority has not also justified this very excessive omission of stocks by the consultants. Information available also indicates that the two consultancy firms shared some personnel. Although it has now been explained that the firms split and one of the partners continued with the exercise, the cost effects of the involvement of both the firms has not been answered. Consequently, it has not been possible to confirm the propriety of the expenditure of Kshs.14,049,537 incurred on this exercise. Further, the stock figure of Kshs.1,939,242,824 excludes stock shortages totalling Kshs.420,478,242 whose nature was not explained. The Authority has not explained why it tied up colossal funds in stocks which could easily become obsolete. Arising from the foregoing, it has again not been possible to confirm that the Authority's stores system is properly operated or even to confirm the correctness of the Balance Sheet Stocks figure of Kshs.1,939,242,824 as at 30 June 1999.

7. DEBTORS

The Balance Sheet Debtors figure of Kshs.1,605,581,787 as at 30 June 1999 includes debts totalling Kshs.12,538,516 outstanding against employees who are no longer in the service of the Authority. The Authority has not given a satisfactory indication as to how it intends to recover these long outstanding debts from the ex-employees. In addition the debtors figure also includes debts totalling Kshs.18,695,929 in respect of subsistence allowances paid over and above various officers' entitlements. While it is not clear why the Authority paid the officers the amounts in excess of what they were entitled to, it has also not been explained adequately how the amounts will be recovered. Similarly there were advances totalling Kshs.4,096,446 included in the debtors relating to negative salaries which suggest that employees were advanced salaries in excess of their gross amounts which could not be recovered from their earnings. In addition dishonoured cheques totalling Kshs.19,695,108 some of which have remained outstanding for over four years and whose recoverability remains doubtful, were also included in debtors. As a result of the foregoing, it has not been possible to confirm the correctness and recoverability of the total Balance Sheet Debtors balance of Kshs.1,605,581,787 as at 30 June 1999.

8. INVESTMENTS

The Long Term Investments figure of Kshs.697,210,014 as at 30 June 1999 excludes deposits totalling Kshs.100,336,682 comprising of the principal sum of Kshs.55,785,918 and accrued interest of Kshs.44,550,765 held in six (6) collapsed financial institutions which had been written off. Although the Institutions where these deposits were held have since been taken over by the Deposit Protection Fund Board of the Central Bank, the Authority has only received dividends amounting to Kshs.4,480,515 with no assurance for receipt of any other future dividends. Accordingly, therefore, the Authority stands to totally lose an amount in excess of Kshs.50 million out of the original principal deposits of Kshs.55,785,918 held in the collapsed financial institutions.

S. M. MALUKI
AUDITOR GENERAL (CORPORATIONS)

24 July 2001