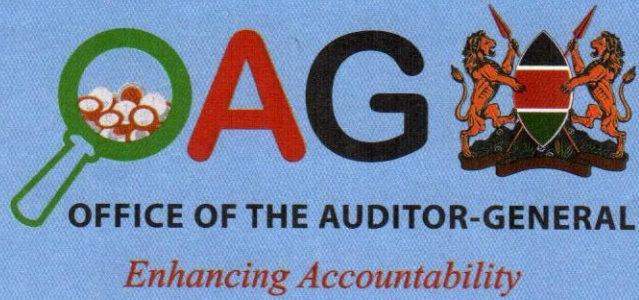


REPUBLIC OF KENYA



REPORT

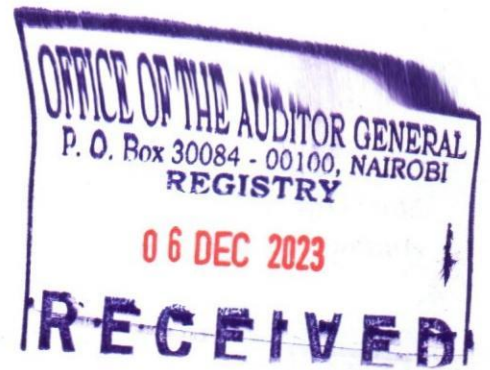
OF

THE AUDITOR-GENERAL

ON

**STATE DEPARTMENT FOR SHIPPING AND
MARITIME AFFAIRS**

**FOR THE YEAR ENDED
30 JUNE, 2023**



STATE DEPARTMENT FOR SHIPPING AND MARITIME AFFAIRS

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2023

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

State Department of shipping and Maritime Affairs
Annual Report and Financial Statements for the year ended 30th June 2023

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1. Acronyms and Glossary of Terms

| | |
|-------|---|
| AIE | Authority to Incur Expenditure |
| CFO | Chief Finance Officer |
| HAU | Head of Accounting Unit |
| IPSAS | International Public Sector Accounting Standards |
| OCOB | Office of the Controller of Budget |
| OAG | Office of the Auditor General |
| PFM | Public Finance Management |
| SDSM | State Department of Shipping and Maritime Affairs |

2. Key State Department of Shipping and Maritime Affairs Information and Management

(a) Background information

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

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

Currently, through Executive Order No. 1 of 2023, the department was further renamed the State Department for Shipping and Maritime Affairs within the Ministry of Mining, Blue Economy and Maritime Affairs.

1.1 Vision

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

1.2 Mission

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

1.3 Mandates of the State Department for Shipping and Maritime Affairs

1. Promotion of Maritime and Shipping Industry;
2. Maritime Transport Management;
3. Ship Registration;

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

1.4 Core Values and Principles

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

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

(b) Key Management

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

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

(c) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2023 and who had direct fiduciary responsibility were:

| NO. | DESIGNATION | NAME |
|------------|---|--------------------------|
| 1 | Cabinet Secretary | Mr. Salim Mvurya |
| 2 | Principal Secretary | Mr. Geoffrey Kaituko |
| 3 | Secretary Administration | Mr. Isaiya Nakoru |
| 4 | Deputy Director, HRM | Mrs. Rosemary W, Gichohi |
| 5 | Chief Finance Officer | Mr. Joel Ngao Odhiambo |
| 6 | Deputy Accountant General | Mr. Henry Mobegi |
| 7 | Senior Assistant Internal Auditor General | Mrs. Rose Kanyuku |
| 8 | Director Technical | Mr. Julius Segera |
| 9 | Deputy Director, Supply Chain Management | Mr. Luke Midamba |
| 10 | Senior State Council | Mrs. Lynette Bunei |
| 11 | Deputy Director, ICT | Mr. Silvester Liech |

(d) Fiduciary Oversight Arrangements

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

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

(e) SDSM Headquarters

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

(f) SDSM Bankers (all banks)

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

(g) Independent Auditors

Auditor - General
Office of The Auditor General
Anniversary Towers, University Way

State Department of shipping and Maritime Affairs
Annual Report and Financial Statements for the year ended 30th June 2023

P.O. Box 30084
GPO 00100
NAIROBI, KENYA

(h) Principal Legal Adviser

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

3. Statement of Governance

1. A brief on the key leadership structure including photos and the qualifications

| S/NO | NAME | DESIGNATION | QUALIFICATIONS |
|------|--------------------------|---|--|
| 1 | Hon. Salim Mvurya, EGH | Cabinet Secretary | |
| 2 | Mr. Geoffrey E. Kaituko | Principal Secretary | Master of Science in Leadership and Governance |
| 3 | Mr. Isaiya Nakoru | Secretary Administration | Masters in Peace Studies |
| 4 | Mr. Julius Segera | Director, Shipping & Maritime | Masters in Maritime Affairs |
| 5 | Mrs. Rosemary W, Gichohi | Deputy Director, HRM | MBA |
| 6 | CPA. Henry Mobegi | Deputy, Accountant General | MBA |
| 7 | Mr. Joel Ngao Odhiambo | Chief Finance Officer | MBA (Finance) |
| 8 | Mrs. Rose Kanyuku | Senior Assistant Internal Auditor General | Bachelor of Commerce Degree |
| 9 | Mr. Luke Midamba | Deputy Director, Supply Chain Management | MBA |
| 10 | Mr. Silvester Liech | Deputy Director, ICT | Master of Science in Information Systems |
| 11 | Mrs. Lynette Bunei | Senior State Council | Degree in Law(LLB) & Post Graduate Diploma (KSL) |

2. Management Committees and their Roles.

This State Department has in place the following six Committees;

a. Road Safety Mainstreaming Committee

The committee's roles are as follows;

- Develop a workplace Road Safety Policy anchored on the NTSA policy guidelines.
- Develop an Annual Road Safety implementation plan based on the approved road safety policy.
- Implement the Annual Road Safety implementation plan.
- Submit quarterly reports to NTSA in the prescribed format.

b. The Service Delivery Committee

The committee's roles are as follows;

- a) Display the Citizen's Service Delivery Charter prominently at the point of entry service delivery point in both English and Kiswahili using the prescribed format that is provided in the guidelines.
- b) Customize the charter to unique needs and convenient access of the customer by among others, translating the charter to Braille, providing mechanisms for sign language, providing audio recording, and uploading the Charter on the MDA's online platform.
- c) Sensitize staff on the Citizens' Service Delivery Charter.
- d) Ensure conformity with commitment and standards in the Charter by establishing a compliance mechanism.

2.3 National Value and Principles of Governance Committee

The committee roles are as follows;

- a) Implement at least **four (4)** commitments and submit in the prescribed format an Annual Process Report on the implantation of the
- b) commitments and way forward captured in the 2022 Annual President's Report on National Value and Principles of Governance.
 - i) Implement measures to support the five pillars of the Government plan as outlined in the Bottom-Up Economic Transformation Agenda (2022-2027) namely: Agriculture, Micro, Small, and Medium Enterprise (MSME) Economy Housing and Settlement, improved Healthcare for all Kenya and Digital Superhighway and creative economy.
 - ii) Leverage digital and automation of government processes to make 80% of government services online.
 - iii) Enhance adherence to the provision of Article 10 of the Constitution through civic education, training sensitization, and mainstreaming of national values and principles of governance.
 - iv) Implement measures to promote accountability and openness in the management of public affairs and institutions.
 - v) Support devolution by strengthening collaboration and cooperation between the two levels of government for improved service delivery.
 - vi) Continue to implement measures to protect the environment and mitigate climate change.

- c) Submit in the prescribed format the Annual Report on measures taken and progress achieved in the Realization of National and Principle of Governance (60%)

2.4 Presidential Directives Committee

The committee's roles are as follows;

- a) Growing a minimum of 3,000 trees per year
- b) To mobilize key stakeholders in liaison with the state department for forestry to conduct three (3) planting / growing events in the year.
- c) Submit half a year (for each rain season) and annual report to the state department for forestry on the number of trees grown ps@forestry.go.ke and psforetryke@gmail.com.

2.5 Resolution of Public Complaints Committee

The committee's roles are as follows;

- a) Resolution of all complaints received
- b) Access to information – Reactive Disclosure
- c) Awareness creation on the complaints handling mechanisms

2.6 Budget Implementation Committee

The committee's roles are as follows;

- a) Review and considering the cash plans shall involve a regular review of the State Department cash plan and Approval of any changes to the initial cash flow plan to be communicated to the National Treasury
- b) Review the utilization of the cash limit and consider any changes as may be required.
- c) Reviewing utilization of donor funds voted for MDA
- d) Advising the Accounting officer on any changes related to the budget implementation.
- e) Reviewing recommending reallocation of expenditures
- f) Reviewing and approving the submission of the expenditure return, non-financial reports, IPPD, pending bills, and A-I-A return for the MDAs and recommending action to be taken
- g) Participating in Sector Working Group
- h) Preparing the budget for the MDAs in consultation with Heads of Departments.

3. The Audit Committee

Since the Reorganization of the current ministries in the new government, this state department now falls under the new Ministry of Mining, Blue Economy, and Maritime Affairs and has not had a Ministerial Audit Committee constituted. However, on June 13, 2023, on MY GOV. Newspapers, there was an advertisement seeking applicants to apply for the positions of the Audit Committee. At the time of this report, (September 2023) listing was being carried out by the Human Resource Department, in the State Department of Mining.

4. Risk management, compliance, and Conflict of Interest.

The National Treasury had facilitated the Risk Management Policy Framework Tools that were used to spearhead this purpose. As of the time of this report, the accounting Officer has already constituted the Risk Management Committee consisting of heads of departments, whose roles are;

1. Establish a management structure for risk management
2. To assess the State Department's risk profile and key areas of risk.
3. To recommend to the Management the adoption of risk assessment and rating procedures.
4. To examine and determine the sufficiency of the Department's internal processes for reporting on and managing key risk areas.
5. Review reports from the Audit Management and Compliance Committee.
6. To assess and recommend the State Department's acceptable levels of risk,
7. To develop and implement a risk management framework and internal control systems.
8. To report the trends on the State Department's risk profile reports on specific risks and the status of the risk management process.

3. Public Participation Activities

The Constitution of Kenya, 2010, and the Statutory Instruments Act, 2013 mandate a regulatory-making body to conduct comprehensive stakeholder engagement on any instrument that is developed by the Cabinet Secretary. Executive Order No. 1 of 2023 outlines the functions of the State Department for Shipping and Maritime Affairs as *inter alia* to develop and implement policies to promote the shipping and maritime Industry.

Several Policies and Legislation have been developed by the State Department in compliance with its functions. The Draft National Maritime Transport Policy and the Draft Maritime Education and Training Policy were developed in 2022 to provide a framework for regulating both maritime transport and maritime education and training. Stakeholder Engagement on the policies was conducted in June 2022 in Mombasa, Malindi, Lamu and Kilifi. Currently, a team is engaging the public on the two policies in Turkana and Nakuru. The State Department remains committed to ensuring that public participation is conducted in every Instrument developed to regulate the maritime industry.

6. Compliance with laws and regulations among others.

The State Department is governed by the following Acts of Parliament: -

- i. The Merchant Shipping Act,2009
- ii. The Kenya Maritime Authority Act,2004
- iii. Marine Insurance Act,2018
- iv. Maritime Zones Act,1989
- v. The Public Finance Management Act,2012
- vi. The Public Procurement and Asset Disposal Act,2015

The legal Unit conducts regular compliance audits to ensure compliance with the laws governing the State Department. The role of the legal office is to provide legal advisory services on the interpretation of laws and policies governing the Department. This enhances compliance with the laws of the various departmental units. Further, the legal unit drafts and submits legal opinions when required by any officer in the Department. Compliance with relevant laws and policies mitigates litigation and claims against the State Department thus avoiding unnecessary legal costs.

4. Statement by the Cabinet Secretary

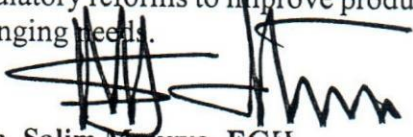
The State Department for Shipping and Maritime Affairs' (SDSM) Annual Report and Financial Statements for the Financial Year 2022/2023, provides an outline of the progress in the continued fulfilment of the mission to create a robust blue economy nation. The year under review saw key leadership changes in the Ministry. This was kick-started by the entry of the new administration after the General election which took place in August 2022 in conformity with the provisions of the Kenyan Constitution, 2010. Among the key leaderships after the transition into the new Government are; Mr. Shadrack Mwadime, EBS, Principal Secretary with effect from September 2022 and the exit of Mrs. Nancy Karigithu, CBS. The immediate former Cabinet Secretary was Mr. James Wainaina Macharia, EGH. The SDSM was formerly under the Ministry of Transport, Infrastructure, Housing, Urban Development, and Public Works, and through Executive Order No. 1 of January 2023, was removed and placed under the Ministry of Mining, Blue Economy and Maritime Affairs.

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

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

In a bid to create an enabling environment in this sector, the SDSM has now embarked on the legislative reform process to develop and implement forward-looking policies and relevant regulations to foster a competitive and efficient Shipping and Maritime Industry. This SDSM is optimistic that it shall come up with a competitive and robust sub-sector that will create a conducive environment for spurring economic growth and investments in the Shipping and Maritime Industry.

To meet the challenges posed by dynamism both locally and internationally, the SDSM will embrace the invention of technology through innovation and work effectively towards achieving its mandates. In addition, it plans to improve its internal capacity by enhancing staff expertise and coming up with robust policies while at the same time implementing legal, institutional, and regulatory reforms to improve productivity, streamline operations, and respond to customers' ever-changing needs.

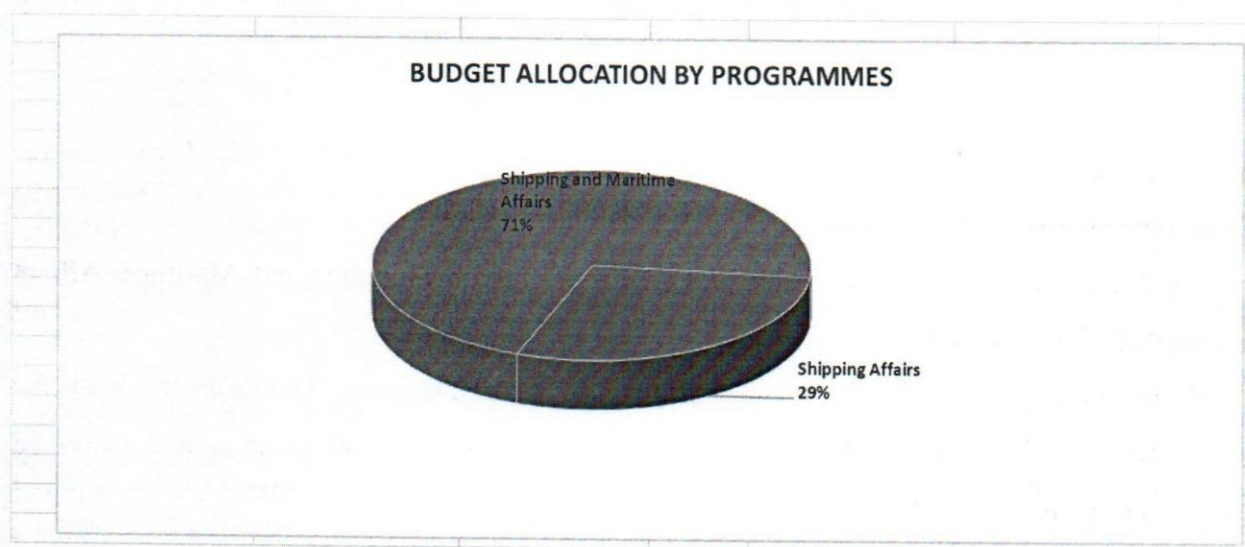

Hon. Salim Mvurya, EGH
CABINET SECRETARY
Ministry of Mining, Blue Economy and Maritime Affairs

5. Statement by the Principal Secretary / Accounting Officer

BUDGET ALLOCATION

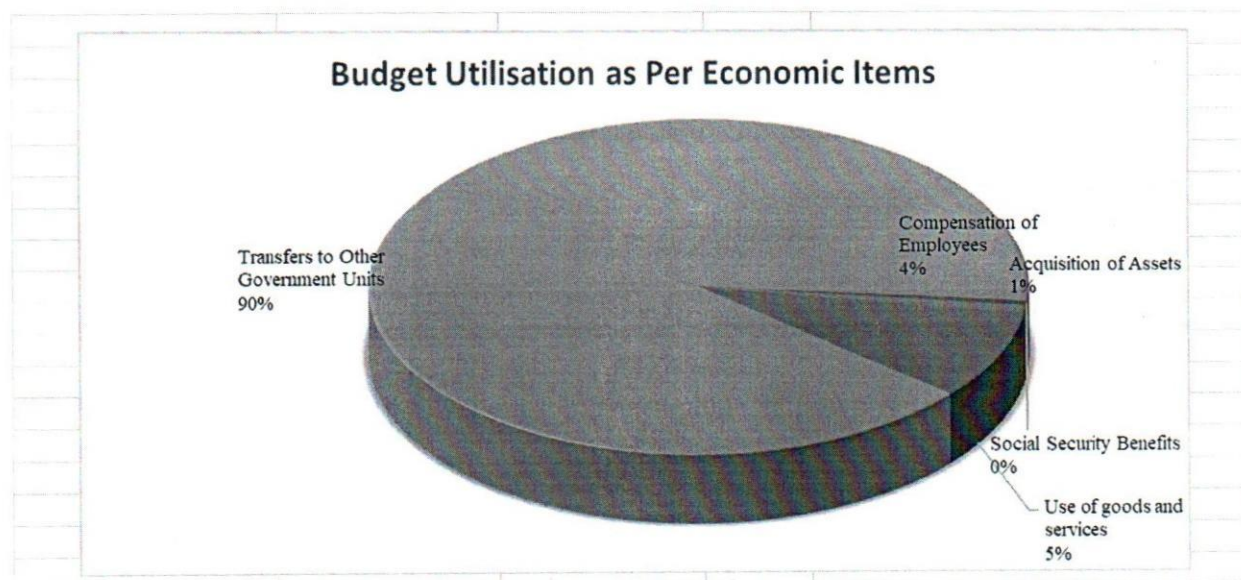
The Budget estimates for the FY 2022/23 were Kshs 2,870,615,224 consisting Recurrent Kshs 2,180,715,224 and Development Kshs 689,900,000. The State Department was to expend the gross budget of **Kshs. 2,836,974,634** under the following three programmes:

| Programmes | Approved Budget Allocation | Actual Payments | Variance |
|-------------------------------|----------------------------|----------------------|-------------------|
| | KShs | KShs | KShs |
| Shipping and Maritime Affairs | 248,539,992 | 231,523,442 | 17,016,550 |
| Shipping Affairs | 100,556,187 | 89,384,518 | 11,171,669 |
| Maritime Affairs-BMA | 2,521,519,045 | 2,516,066,675 | 5,452,370 |
| Total | 2,870,615,224 | 2,836,974,634 | 33,640,590 |



Budget Utilisation (Payments)

The State Department spent **Kshs 2,836,974,634** against an approved budget of **Kshs. 2,870,615,224** representing absorption of **99%**. Utilisation of the budget was carried out through various activities (economic classifications) as shown in the chart below:



Summary of Key Achievements

During the period under review, the State Department for Shipping and Maritime Affairs accomplished the following:

- ❖ Oversaw Training of 3563 and recruitment of 2519 Seafarers. This is in line with the Bottom-up Economic Transformation Agenda (BETA) of job creation and increased foreign remittances.
- ❖ Signed one MoU with Seychelles on Maritime Affairs whose purpose is to develop and promote cooperation between Kenya and Seychelles on Maritime matters such as recognition of Seafarer's certificates of competency, capacity development, development of joint regional Shipping services and exploration of seafarer's deep sea-fishing training opportunities. In addition, the Department is in the process of finalizing two other MOUs with Qatar on Maritime affairs and recognition of STCW Courses. These MoUs will promote endorsement and recognition of certificates held by the two countries, research and capacity building, Maritime Education and Training, Search and Rescue, employment, and sea time for Kenyan seafarers.
- ❖ Finalized the Inland Waterways Development Policy which intends to promote the utilization of inland waterways as supplementary mode of eco-friendly modal transport.

- ❖ Prioritizing the implementation of mitigating factors on climate change and adaptation is significant in achieving climate net zero.
- ❖ There is a need to further harness the immense economic opportunities in the Blue Economy.
- ❖ In conclusion, the report provides information on emerging issues and discusses the challenges that hampered the effective implementation and realization of the set activities and objectives. Further, the report provides some recommendations for dealing with the identified bottlenecks.

I believe that, as we continue to discharge our mandate in collaboration with other stakeholders, we will realize further improvements in ensuring prudent use of public resources. The State Department will continue providing effective policy formulation to its Semi-Autonomous Government Agencies (SAGAs) and updating progress through quarterly performance contracts and budget implementation review reports.



Geoffrey E. KAITUKO.

PRINCIPAL SECRETARY.

STATE DEPARTMENT OF SHIPPING AND MARITIME AFFAIRS

6. Statement of Performance Against Predetermined Objectives for the FY2022/23

Introduction

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the accounting officer when preparing financial statements of each National Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national government entity's performance against predetermined objectives.

The State Department's strategic objectives as per the strategic plan for FY 2022- FY 2023 plan are to:

- a) Improve Maritime Commercial Services
- b) Enhance Maritime Administration
- c) Develop Inland Water Transport Services
- d) Enhance Maritime Casualty Investigation
- e) Strengthen Institutional, Legal and Policy Framework

Progress on attainment of Strategic Objectives

For purposes of implementing and cascading the above development objectives to specific sectors, all the development objectives were made specific, measurable, achievable, realistic and time-bound (SMART) and converted into development outcomes. Attendant indicators were identified for reasons of tracking progress and performance measurement: Below we provide the progress on attaining the stated objectives:

| Program | Strategic Objective | Outcome | Indicator | Performance |
|--------------------------------------|--|--------------------------|-----------------------|---|
| Maritime and Shipping Affairs | Strengthen Institutional, Legal and Policy Framework | Maritime Policies | No. of Reports | A Draft MET Policy in place |
| | Strengthen Institutional, | Improve implementation | No. of reports | Two (2) M& E exercises were carried out |

Emerging Issues

Advances in technology in the Maritime Sector have led to the development of unmanned ships commonly referred, to as Maritime Autonomous Surface Ships (MASS), which require no crew to operate them. The changes in the maritime industry are drastic and necessitate frequent redesigning of the curriculum, infrastructure, work processes, and procedures to match the current trends.

Cyber security attacks are on the rise, especially on recent attacks on payment systems for shipping lines, attacks on online meeting platforms, and the diversion of ships on the high seas by pirates.

De-carbonization of the shipping industry through green voyages has led to the adoption of cleaner energies for propelling marine engines of ships. However, investment in conventional ships to comply with low or zero carbon emissions to mitigate against climate change is costly.

The COVID-19 pandemic effects still being felt in the global trade, maritime training, and recruitment/placement of seafarers.

Rise in lake water levels that affected the construction of search and rescue centers in Lake Victoria.

The Russia-Ukraine war disrupted global trade.

Implementation Challenges

The Department faced the following challenges in discharging its mandate during the period under review:

- ❖ Inadequate funding from the Exchequer remains a big challenge.
- ❖ Inadequate supportive policies and legislative framework in the shipping and maritime sub-sector.
- ❖ Inadequate human resource capacity at the technical levels.
- ❖ Inadequate awareness of opportunities in the maritime and shipping sub-sector.
- ❖ Low levels of employment by the international shipping lines as a result of the COVID-19 pandemic and the closing of boundaries of some countries.
- ❖ Inadequate maritime training infrastructure and equipment.
- ❖ Inadequate incentives on importation of ship building, repair, and maintenance materials.
- ❖ Lack of government-owned commercial fleet for cargo carrying and sea-time training.

- ❖ Inadequate search and rescue infrastructure facilities in coastal and inland waters.
- ❖ Lack of a central maritime data bank/system.
- ❖ Low uptake of on-shoring marine cargo insurance.
- ❖ Weak monitoring, control, and surveillance.

RECOMMENDATIONS

- ❖ There is a need for close collaboration and cooperation among MDAs and other stakeholders since this is a crucial matter in developing and implementing the sector policies, strategies, programs, and projects.
- ❖ Shipping and Maritime is a key sub-sector in spurring economic growth and should be fully supported financially, through budget enhancement to realize the achievement of the BETA Initiatives;
- ❖ There is low awareness of the potential of the shipping and maritime sub-sector by key stakeholders/ investors. There is a need for increased awareness creation initiatives targeting all stakeholders;
- ❖ The sub-sector is affected by rapid technological advancement, hence, there is a need for the adoption of information technology to be in tandem with new and emerging technologies to improve efficiency in service delivery;
- ❖ Over the years, the State Department have been affected by inadequate human resource leading to poor implementation of the planned activities and thus affecting the full realization of the sub-sector's potential. Adequate human resource capacity is a prerequisite for the realization of the State Department's mandate. To bridge this gap in the medium term, the State Department should recruit relevant technical officers.
- ❖ There is a need to undertake prioritization of programs and projects based on the available resources and mobilization of alternative funding.
- ❖ The State Department should improve on and adopt new technologies, particularly virtual communication to save on scarce resources.
- ❖ Classification of Seafarers as some essential key workers in this sub-sector.
- ❖ Investment in research and development is key to improved service delivery through innovation and invention.

| | | | | |
|--|--------------------------------------|---|---|--|
| | Legal and Policy Framework | | | |
| | Improve Maritime Commercial Services | Awareness created on the potentials in the Blue Economy | No. of Stakeholders' sensitization, Awareness campaigns on the potentials in the Blue Economy | -Held two (2) stakeholders' sensitization campaigns on the potentials in the Blue Economy -Conducted two(2) campaigns to raise awareness on investment in Maritime Sector |
| | Improve Maritime Commercial Services | Investment opportunities created | Number of campaigns conducted to raise awareness in the investment in the Maritime Sector | Negotiated and signed two (2) MOUs with Republic of Liberia and Republic of Jamaica |

7. Management Discussion and Analysis

Performance Review

Summary of the Budget Performance against Actual Amounts for 2022/23 Based on Economic Classification and Programmes.

The State Department has one programme namely Shipping and Maritime Affairs whose outcome is to increase the share of the maritime sector contribution to the GDP.

Actual revenue receipts

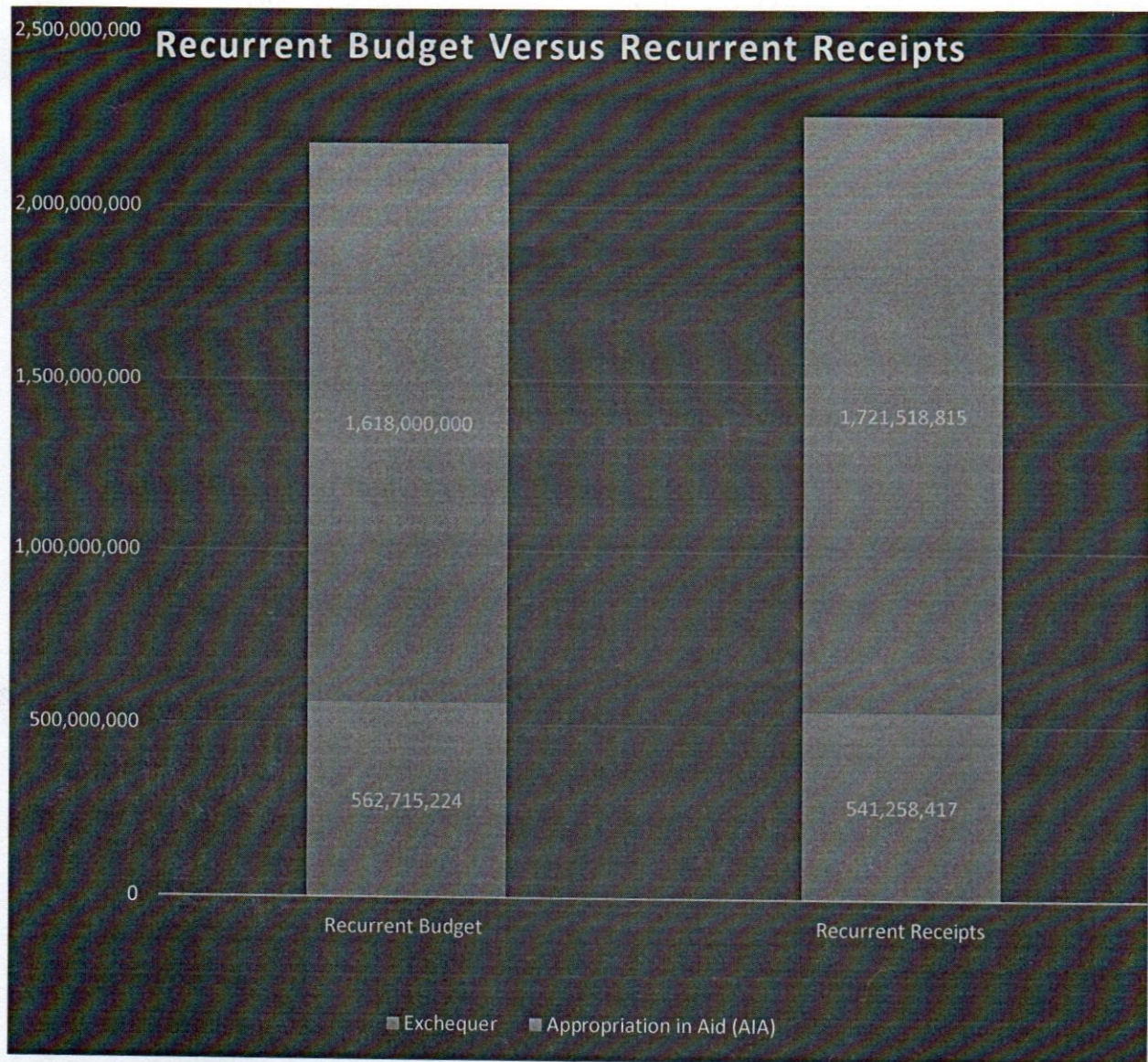
The total budget for the State Department for the FY 2022/23 was **Kshs 2,870,615,224**. This was to be funded by the exchequer of Kshs. **563,615,224** and AIA of **Kshs 2,307, 000,000**.

At the end of the FY2022/2023, the actual Receipts were **Kshs. 2,837,739,138** comprising of **Kshs 541,258,417** exchequer received and **Kshs. 2,296,480,721** actual AIA collection.

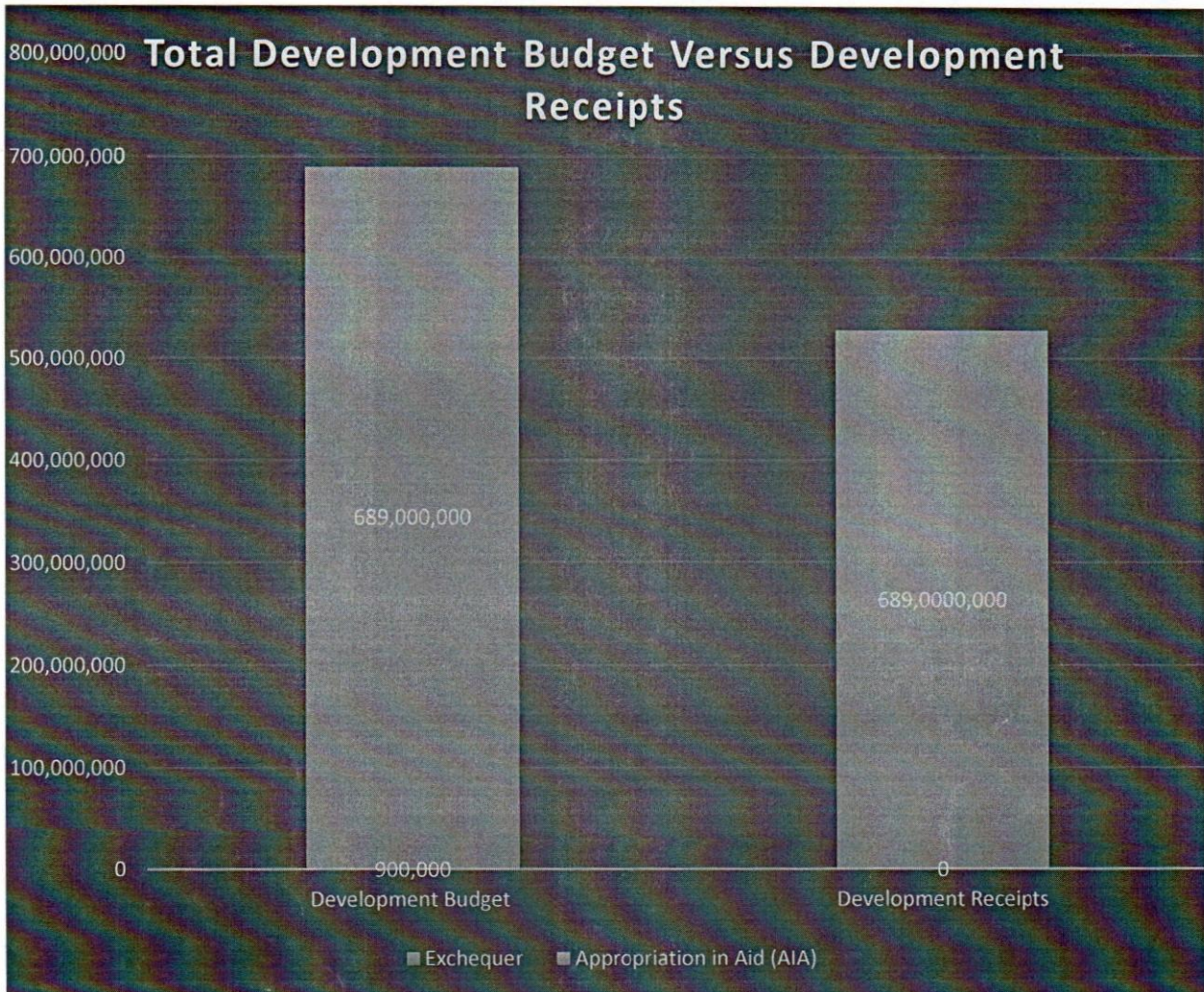
Table 1: Actual revenue receipts

| Revenue | Budget | | | Actual receipt | | | Variance for the total | % variance |
|----------------------------|----------------------|--------------------|----------------------|----------------------|--------------------|----------------------|------------------------|------------|
| | Recurrent | Development | Total | Recurrent | Development | Total | | |
| Exchequer | 562,715,224 | 900,000 | 563,615,224 | 541,258,417 | - | 541,258,417 | 22,356,807 | 96% |
| Appropriation in Aid (AIA) | 1,618,000,000 | 689,000,000 | 2,307,000,000 | 1,607,480,721 | 689,000,000 | 2,296,480,721 | 10,519,279 | 100% |
| Total | 2,180,715,224 | 689,900,000 | 2,870,615,224 | 2,148,739,138 | 689,000,000 | 2,837,739,138 | 32,876,086 | 99% |

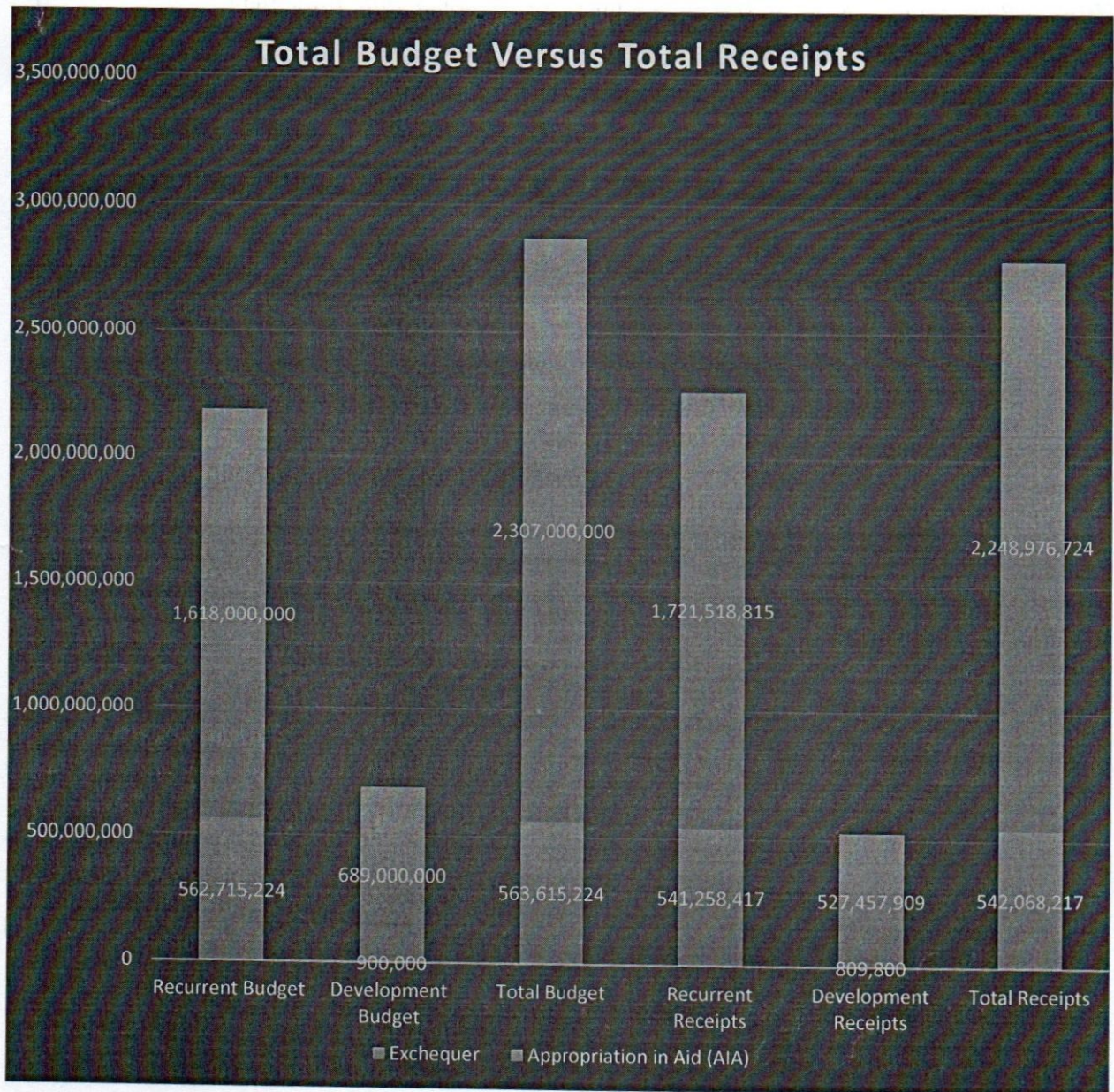
Graph showing Recurrent Budget versus Recurrent Receipts



Graph showing Development Budget versus Development Receipts



Graph showing Total Budget versus Total Receipts



State Department of shipping and Maritime Affairs
Annual Report and Financial Statements for the year ended 30th June 2023

The AIA for the State Department is collected by the three SAGAs as detailed in the table below;

Table 2: Actual AIA collection

| S/N O | SAGAS | AIA budget FY 2022/23 | AIA collections as of 30 th June, 2023 | % of achievemen t | Remarks |
|----------|---------------------------------------|--------------------------|---|-------------------------|---|
| | | Kshs. | | | |
| 1. | Kenya Maritime Authority | 2,172,000,000 | 2,172,000,000 | 100% | The capacity to undertake the activities to raise funds was limited thus the collections of AIA |
| 2. | Bandari Maritime Academy | 120,000,000 | 234,038,094 | 195% | The over-collection was due to an increase in the number of enrolled students |
| 3. | Kenya National Shipping Line | 15,000,000 | 4,480,721 | 30% | The undercollection was due to a lack of dedicated service providers and a delay in the implementation of service-level agreements. |
| | TOTAL | 2,307,000,000 | 2,410,518,815 | 97% | |

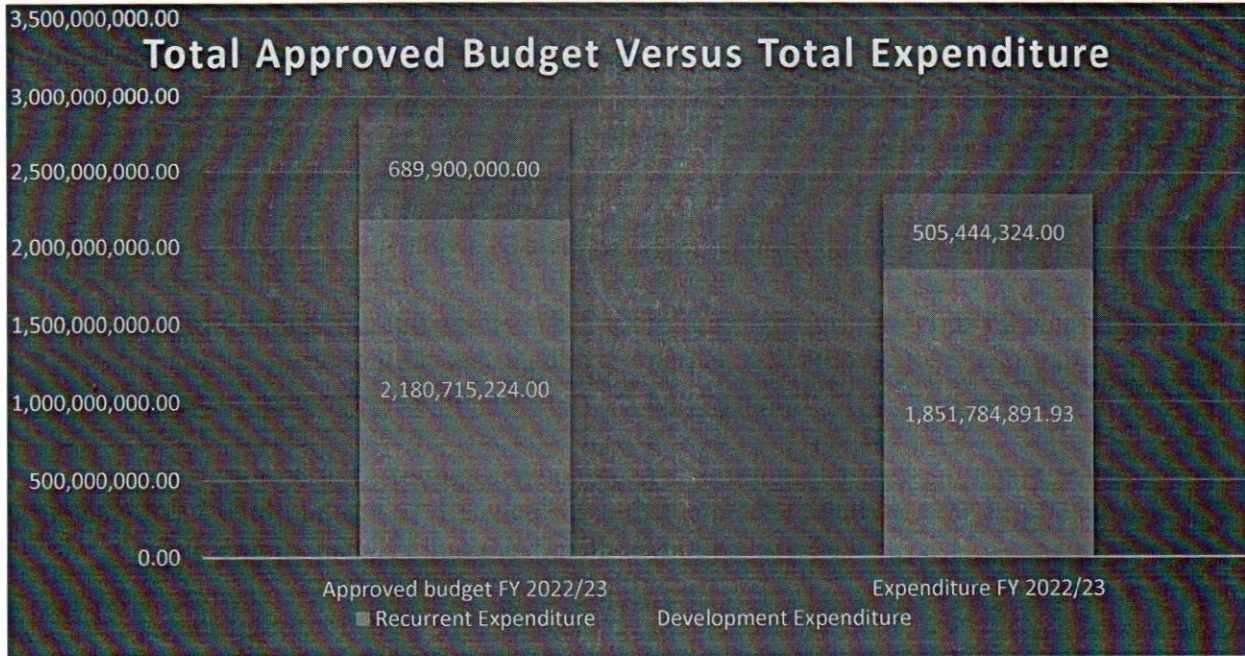
Actual expenditure by vote and program

The State Department's Recurrent expenditure was Kshs. **1,851,784,891.93** against a budget of Kshs. **2,180,715,224** equating to 85% absorption level. The Development expenditure was **Kshs.505,444,324** against a budget of **Ksh. 689,900,000** equating to 73% absorption level. This information is detailed in Table 3 below;

Table 3: Actual Expenditure under Both Recurrent and Development Budgets

| Economic Classification | Approved budget FY 2022/23 | Expenditure FY 2022/23 | Absorption level |
|-------------------------------------|-----------------------------------|-------------------------------|-------------------------|
| Recurrent Expenditure | 2,180,715,224 | 2,147,349,634 | 85% |
| Compensation of Employees | 108,000,000 | 107,016,297 | 100% |
| Use of Goods and Services | 149,794,531 | 133,890,256 | 88% |
| Current transfers to Govt. Agencies | 1,884,400,000 | 1,871,041,683 | 84% |
| Social benefits | 13,229,343 | 13,008,598.15 | 98% |
| Non-Financial Assets | 25,291,350 | 22,392,800.00 | 90% |
| Development Expenditure | 689,900,000 | 689,000,000 | 100.00% |
| Non-Financial Assets | 900,000 | 625,000 | 90% |
| Total | 2,870,615,224 | 2,836,974,634 | 99% |

Graph of Total Approved Budget Versus Total Expenditure



The following are reasons for the performance of various budget line items;

Compensation of employees: This has a 99% absorption level due to adequate funding

Use of goods and non-financial assets: The absorption of the use of goods budget line item was due to the inability of the State Department to settle pending bills by the closure of the financial year given the late approval of Supplementary Estimates No. II.

Current transfers to Govt. Agencies: The under absorption of 1% was due to the late approval of supplementary estimates No. II Hence some of the planned activities had to be pushed to the new year due to procurement limitations for BMA and KNSL.

Current transfers to Govt. Agencies: The under absorption of 1% in the development budget was for KMA and as a result of non-responsive bids, technical and structural challenges led to delays in implementing the Kenya Maritime Data Bank and Kenya Lake Victoria Maritime Communication & Transport Project.

8. Environmental and Sustainability Reporting

Mission

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

a. Sustainability strategy and profile

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

ICT Strategy – Infrastructure: The SDSM has developed a robust ICT infrastructure to support the achievement of its Mandate. Having a reliable LAN and WAN network has improved its internal communication and collaboration, thus faster achievement of its strategic activities.

1. A vibrant website was developed and hosted by ICT authority for ease of maintenance (software upgrade) and necessary security control.
2. Most computer software were upgraded (i) Microsoft Office 2023, 2016 to 2019.
(ii) Computer Memories from 4GB to 8GB and 16GB, (iii) Windows 10 home editions to Windows 11 Professional.
3. Five number Access points were installed for ease of access of WiFi. This replaced Desktop routers which may times create conflicts within the local area Network.
4. Additional Local Area Network ports to increase ports to users ration 20 in number. Additional ports were added.
5. Official email address on Zimbra were developed and training of the same to all members of staff

Projection for the Next Financial Year.

- a. To increase computers to user's ratio, additional computers will be acquired to ease work flow
- b. Deployment of Robust and antiviruses to safeguard users from unnecessary malware attacks.
- c. ICT office will step up awareness to users on safe practices in the ICT space.
- d. Government common core network (Gccn) -fibre ring connecting various governments offices to central services in the National Treasury Building its backbone speeds (core routers) stepped up from 1 Gigabit to 10 Gigabit.

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

SDSM has mainstreamed its environmental sustainability goals within all its operation areas as part of its corporate strategy to enhance the core mandate. Therefore, it continues to comply with applicable environmental laws and regulations in the public sector. The SDSM has allocated in its

budget funds for contracted cleaning services, supplies of cleaning material, and services to facilitate general cleanliness in all its offices.

Through one of its SAGAs, Kenya Maritime Authority planted 33,000 mangrove trees together with Kenya Forest Services, the Mtakimau Community, and other stakeholders to restore the marine environment by planting the following species of mangroves trees, *Rhizophoramucronata*- local name: Mkokko 23,000 and *Ceriopstagal*- local name: Mkandaa 10,000. The planting of the trees enabled the SDSM to reinforce its commitment towards the Blue Economy Initiative by shared responsibility in addressing concerns on continued deforestation, whose pictures are as shown under CSR below.

On the disposal of unserviceable assets, the SDSM is guided by Section 163 of the PPADA 2015 and the Accounting Officer will establish an Asset Disposal committee as when the need arises for disposal.

c. Employee welfare

The following are policies guiding the hiring process;

Human Resource Policies and Procedures Manual for the Public Service 2016, states that the government will endeavor to have a gender-balanced civil service by ensuring that not more than 2/3 of positions in its establishment are filled by either gender.

Kenya Constitution 2010 talks about the Values and Principles of Public Service (Article 232) on gender consideration.

The Public Service Regulations 2020 revised states that recommendations for appointment for each post will be made based on gender consideration of the 2/3 rule.

Stakeholder engagement is always sought when the policies are reviewed by either the Public Service Commission or the State Department for Public Service and views from stakeholders are incorporated in the policy documents.

The efforts made in improving skills and careers are training, coaching, mentoring, and review of career progression guidelines.

Efforts made to improve appraisal and reward systems are by sensitizing staff on an online staff appraisal system, constituting an Employee Performance Management Committee.

We have a Safety and Health Committee measures have been put in place to prevent and mitigate against accidents, and fire protection facilities are provided in the building

d. Operational practices/Marketplace practices

The supply chain plays a pivotal role in the timely procurement of quality goods, works, and services. The procurement process is guided by the Public Procurement and Assets Disposal Act 2015, relevant regulations, policies and procedures, and best practices in the industry. The main objective of the supply chain function is to improve processes and service delivery to stakeholders for sustained economic development. The *SDSM* maintains good business practices and treats its suppliers responsibly by honouring contracts and respecting payment practices; specifications are given under what is required to ensure that there is value for money for the goods procured or services rendered. The *SDSM*, while carrying out its mandate, has endeavoured to follow the generally accepted good procurement standards. By doing this, the right quality, quantity, and time are always observed. All her procurement processes are carried out in IFMIS.

The *SDSM* carried out the following activities during the year under review to ensure best practices are adhered to; The *SDSM* complied with the 30 percent rule reservation for women, youth, and persons with disabilities on procurable items. The *SDSM* also complied with Section 155 of the Public Procurement and Asset Disposal Act, 2015, making it mandatory for public entities to comply with Part XII of the Act on Preference and Reservations provisions in Procurement. Sections 53 (6), 157 (5), and (10) of the Act require Accounting Officers of public entities to reserve a prescribed percentage of their procurement budget, which shall not be less than 30 percent of the Procurement Budget to the disadvantaged groups in society. In this regard, the *SDSM* awarded contracts worth Kshs 26.111 million to the underprivileged Groups (Women, Youth, and PWDs) against the procurement budget of Kshs 82.961 million. The total contracts awarded to the target group translated to 31.5% of the total procurement budget of the *SDSM* for 2022/23.

During the period under review, the Department appointed various Ad hoc committees to undertake procurement-related activities such as tender evaluation, disposals, and inspection and acceptance committees. Some of the tender requests opened, evaluated, awarded, and inspected include the provision of Cleaning Services, Provision of Security Services, and Supply and Delivery of Heavy Duty Passenger Utility Vehicles, 4 X 4, L.W.D,2700 – 3,000 CC Diesel. Purchase of ICT Equipment. Purchase of Publicity Materials. Purchase of Office Stationaries, Provision of Air tickets among others. During the period under review, disposable assets/ items e.g. tires and furniture were identified and their disposal would fall due in the subsequent financial year.

e. Community Engagements

Corporate Social Responsibility (CSR) is an essential component that enables an entity to participate in promoting environmental, ethical, and socioeconomic concerns of the communities. During the period under review, *SDSM* participated in community engagements through Kenya Maritime Authority, one of its SAGAs. Two of its CRS activities are shown below;

1. Support to Kwale County Drought Relief Assistance

The KMA supported the Kwale County Drought Relief Assistance by donating 300 bales of maize flour to support the needy in the community affected by Drought worth Ksh. 8,400,000.



KMA donating Foodstuff to Kwale County for Drought Relief on 27th December 2022

2. Planting of Trees

KMA partnered with the Kenya Forest Services and the Community Forest Associations in Kilifi to adopt 5 hectares of KFS Mangrove Forest for mangrove rehabilitation in Mtongani Kidundu. The Authority planted 33,000 mangroves together with Kenya Forest Services, the Mtakimau Community Forest Association, and other stakeholders to restore the marine environment and put up educative billboards on marine environment protection at a cost of Kshs. 1,320,000.

The following species of mangroves were planted:

- i. Rhizophoramucronata- local name:Mkoko 23,000
- ii. Ceriopstagal- local name: Mandala 10,000

Planting the mangroves enabled the Authority to also implement the Presidential directive aimed at achieving and maintaining over 10% Tree Cover initiative.

In addition, planting the trees enabled the SDSM to reinforce its commitment towards the Blue Economy Initiative by sharing responsibility in addressing concerns about continued deforestation. The Mangrove seedlings planted during the period under review, (2022/23) have a survival rate of

80%. The presence of KMA has empowered the Community Forest Association group members to collaborate with KFS rangers, hence the protection and conservation of the ecosystem has improved.

In a nutshell, planting mangrove trees forms a significant part of the State Department's mandate for the **Protection and Regulation of Marine Ecosystems**.



KMA Employees, Kenya Forest Services, Mtakimau Community Forest Association, and other stakeholders planting mangroves trees in Mtongani Kidundu in Kilifi County on 3rd June 2023.

9. Statement of Management Responsibilities

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

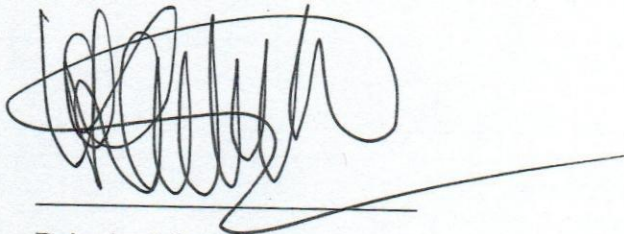
The Accounting Officer in charge of the State Department of Shipping and Maritime Affairs is responsible for the preparation and presentation of the State Department of Shipping and Maritime Affairs' financial statements, which give a true and fair view of the state of affairs of the State Department of Shipping and Maritime Affairs for and as at the end of the financial year (period) ended on June 30, 2023. 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 State Department of Shipping and Maritime Affairs, (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 State Department of Shipping and Maritime Affairs; (v) selecting and applying appropriate accounting policies, and (vi) making accounting estimates that are reasonable in the circumstances.

The Accounting Officer in charge of the State Department of Shipping and Maritime Affairs accepts responsibility for the State Department of Shipping and Maritime Affairs' financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Accounting Officer is of the opinion that the State Department of Shipping and Maritime Affairs' financial statements give a true and fair view of the state of State Department of Shipping and Maritime Affairs' transactions during the financial year ended June 30, 20XX, and of the State Department of Shipping and Maritime Affairs' financial position as at that date. The Accounting Officer in charge of the State Department of Shipping and Maritime Affairs) further confirms the completeness of the accounting records maintained for the State Department of Shipping and Maritime Affairs, which have been relied upon in the preparation of the State Department of Shipping and Maritime Affairs' financial statements as well as the adequacy of the systems of internal financial control.

The Accounting Officer in charge of the State Department of Shipping and Maritime Affairs confirms that the State Department of Shipping and Maritime Affairs has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the State Department of Shipping and Maritime Affairs' funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the Accounting Officer confirms that the State Department of Shipping and Maritime Affairs' financial statements have been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

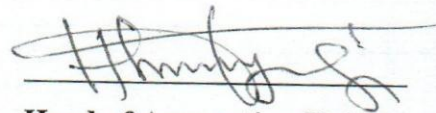
Approval of the financial statements

The State Department of Shipping and Maritime Affairs' financial statements were approved and signed by the Accounting Officer on 25th September 2023.



Principal Secretary

Name: Geoffrey E. KAITUKO



Head of Accounting Unit

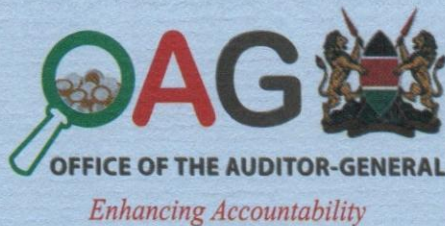
Name: CPA Henry Mobegi

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON STATE DEPARTMENT FOR SHIPPING AND MARITIME AFFAIRS FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

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

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

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of State Department for Shipping and Maritime Affairs set out on pages 1 to 24, which comprise of the statement of financial assets and liabilities as at 30 June, 2023 and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for

the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of State Department for Shipping and Maritime Affairs as at 30 June, 2023 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

Basis for Opinion

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

Emphasis of Matter

1. Other Pending Payables

Note 16.4 to the financial statements reflects other pending payables balance of Kshs.1,311,736. The amount has increased from Kshs.80,786 to Kshs.1,311,736 being 152%. The amount of Kshs.80,786 brought forward in the financial statements has unexplained variance of Kshs.1,230,950 from the amount of Kshs.1,311,736 reflected in the 2021/2022 financial statements. The amount increased with no addition during the year.

Management has not provided justification for non-payment of the long outstanding pending bills which should have formed the first charge in the subsequent year's budget, and which exposes the State Department to the risk of incurring significant unquantified interest costs and penalties due to delay in settling invoiced bills.

2. Late Exchequer Releases

The statement of receipts and payments reflects transfers from The National Treasury amount of Kshs.541,258,417 and as disclosed in Note 1 to the financial statements. However, included in this amount is Kshs.72,185,907 released on 30 June, 2023 by The National Treasury and reflected in the State Department's bank account on 4 July, 2024.

In the circumstances, the citizens did not get timely provision of goods and services as intended by the National Government, due to delay in disbursements of the funds from the National Treasury.

My opinion is however, not modified in respect of these matters.

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Unlawful Appointment of Bandari Maritime Academy Chief Executive Officer

Review of the payroll and human resources records revealed that a staff of the State Department was appointed in an acting capacity as the Chief Executive Officer of Bandari Maritime Academy on 5 May, 2022 on a two-year contract even though he had attained the mandatory retirement age of sixty (60) years. The officer was to exit the public service on 1 July, 2022 but was promoted and appointed on local terms by the Public Service Commission on 5 May, 2022 from Deputy Director to a Director, Human Resources Management and Development and took over as the Chief Executive Officer (CEO) at the Academy. As at the time of audit in November, 2023, the said officer was still the acting Director/CEO the Academy.

This exceeded the statutory duration provided for in the Public Service Commission Act, 2017 which states that an officer may be appointed in an acting capacity for a period of at least thirty days but not exceeding six months.

Further, the Bandari Maritime Academy having been established under the Legal Notice No. 233 of 28 November, 2018 as a State Corporation, thus not an office established under the Constitution, then it is an illegality for the Public Service Commission to appoint an Acting CEO of a Semi-Autonomous Government Agency (SAGA) which is outside its mandate when there exists a Board of Directors.

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

2. Non-Adherence to the Data Protection Act, 2019

Review of the staff establishment revealed that the State Department has not appointed a Data Protection Officer as per the requirements of the Data Protection Act, 2019, to carry out the functions as provided for in Section 24 of the Act.

Further, the Ministry had not registered itself as either a Data Controller or Data Processor or both with the Data Protection Commissioner's Office in Line with Section 18 of the Act which provides; (1) Subject to sub-section (2), no person shall act as a data controller or data processor unless registered with the Data Commissioner.

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

3. Failure to comply with Public Finance Management Regulation 2015

Note 16.2 to the financial statements reflects pending accounts payable balance of Kshs.32,041,973 comprising of Kshs.26,209,480 accrued in the current fiscal year and historical pending bills amounting to Kshs.5,832,493. Management has not provided justification for non-payment of the long outstanding pending bills which should have formed the first charge in the subsequent year's budget, and which exposes the State Department to the risk of delayed payments, interest costs and penalties due to delay in settling invoiced bills. This is contrary to Section 42 (a) of the Public Finance Management Regulation, 2015 which requires that debt service payments shall be a first charge on the consolidated fund and the accounting officer shall ensure this is done to the extent possible that the government does not default on debt obligations. In addition, out of these bills, only Kshs.15,234,972 have been certified payable by the internal audit department.

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

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAI) 4000. The Standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements comply, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on the Effectiveness of Internal Controls, Risk Management and Governance, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Lack of an Audit Committee

Review of the human resources records provided revealed that the State Department had not yet constituted an audit committee in contrary to Section 73(1)(a) of the Public Finance Management Act, 2012 which requires that every National Government entity shall ensure that it complies with this Act and has appropriate arrangements in place for conducting internal audit according to the guidelines of the Accounting Standards Board.

In the circumstances, the sufficiency and effectiveness of internal controls on management could not be confirmed.

2. Failure to Tag Assets

Annex 4 to the financial statements reflects summary of fixed assets register balances of Kshs.23,093,054 and Kshs.13,211,222 in respect to buildings and structures and office equipment, furniture and fittings respectively both totalling to Kshs.36,304,276. However, physical verification carried out in November, 2023 revealed that the assets had not been tagged or serialized for ease of identification by the Management.

In the circumstances, the existence and effectiveness of controls on custody management of Government assets could not be confirmed.

3. Excess staff above Approved Staff Establishment

Review of the State Department staff establishment revealed that it had fifteen (15) cadres with one hundred and four (104) members of staff in-post. However, it was noted that in the staff establishment, only ninety-three (93) cadres were approved, exceeding the approved establishment by eleven staff members.

In the circumstances, the value for the excess of the staff could not be confirmed.

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

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of the internal controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the State Department's ability to continue to sustain services, disclosing as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the State Department or cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion on whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls would not necessarily disclose all matters in the internal controls that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence which 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 controls.
- 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 Management's use of the applicable 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 State Department's ability 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 State Department to cease 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 which achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the State Department to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi


22 January, 2024


1000

11. Statement of Receipts and Payments for the Year ended 30th June 2023

| | Note | 2022- 2023 Kshs | 2021- 2022 Kshs |
|-------------------------------------|------|----------------------|----------------------|
| RECEIPTS | | | |
| Transfers from National Treasury | 1 | 541,258,417 | 491,528,614 |
| Other Receipts | 2 | 2,296,480,721 | 1,818,203,216 |
| TOTAL REVENUES | | 2,837,739,138 | 2,309,731,830 |
| PAYMENTS | | | |
| Compensation of Employees | 3 | 107,016,297 | 95,323,968 |
| Use of goods and services | 4 | 133,890,256 | 78,531,910 |
| Transfers to Other Government Units | 5 | 2,560,041,683 | 2,106,203,216 |
| Social Security Benefits | 6 | 13,008,598 | 625,071 |
| Acquisition of Assets | 7 | 23,017,800 | 27,324,276 |
| TOTAL PAYMENTS | | 2,836,974,634 | 2,308,008,442 |
| SURPLUS/DEFICIT | | 764,504 | 1,723,388 |

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The State Department of Shipping and Maritime Affairs financial statements were approved on 25th September 2023 and signed by:


 Principal Secretary
 Name: Geoffrey E. KAITUKO

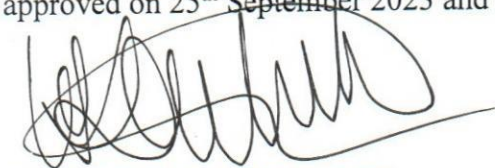

 Head of Accounting Unit
 Name: CPA Henry Mobegi
 ICPAK M/No: 9167

State Department of shipping and Maritime Affairs
 Annual Report and Financial Statements for the year ended 30th June 2023

12. Statement Of Financial Assets And Financial Liabilities As At 30th June 2023

| | Note | 2022- 2023 Kshs | 2021- 2022 Kshs |
|--|------|--------------------|--------------------|
| FINANCIAL ASSETS | | | |
| Cash and Cash Equivalents | | | |
| Bank Balances | 8A | 695,010 | 2,774,428 |
| Cash Balances | 8B | - | - |
| Total Cash And Cash Equivalents | | 695,010 | 2,774,428 |
| Accounts Receivables - Outstanding Imprest and Clearance Accounts | 9 | 150,280 | 260,698 |
| TOTAL FINANCIAL ASSETS | | 845,290 | 3,035,126 |
| LESS: FINANCIAL LIABILITIES | | | |
| Accounts Payables - Deposits | 10 | 80,786 | 1,311,736 |
| NET FINANCIAL ASSETS | | 764,504 | 1,723,390 |
| REPRESENTED BY | | | |
| Fund balance b/fwd | 11 | 1,723,390 | 2,988,927 |
| Prior year adjustments | 12 | (1,723,390) | (2,988,927) |
| Surplus/Deficit for the year | | 764,504 | 1,723,388 |
| NET FINANCIAL POSSITION | | 764,504 | 1,723,390 |

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The State Department of Shipping and Maritime Affairs financial statements were approved on 25th September 2023 and signed by:



Principal Secretary
 Name: Geoffrey E. KAITUKO

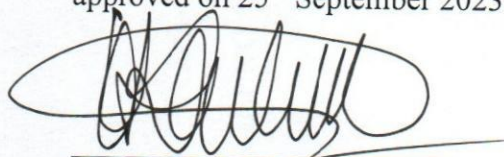


Head of Accounting Unit
 Name: CPA Henry Mobegi
 ICPAK M/No: 9167

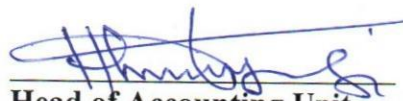
13. Statement of Cash Flows For The Year Ended 30th June 2023

| | Note | 2022- 2023 Kshs | 2021- 2022 Kshs |
|--|------|----------------------|----------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Receipts for operating income | | | |
| Transfers from National Treasury | 1 | 541,258,417 | 491,528,614 |
| Other Receipts | 2 | 2,296,480,721 | 1,818,203,216 |
| | | 2,837,739,138 | 2,309,731,830 |
| Payments for operating expenses | | | |
| Compensation of Employees | 3 | 107,016,297 | 95,323,968 |
| Use of goods and services | 4 | 133,890,256 | 78,531,910 |
| Transfers to Other Government Units | 5 | 2,560,041,683 | 2,106,203,216 |
| Social Security Benefits | 6 | 13,008,598 | 625,071 |
| | | 2,813,956,834 | 2,280,684,166 |
| Adjusted for: | | | |
| Prior Year Adjustments | 12 | (1,723,390) | (2,988,927) |
| Decrease/(Increase) in Accounts receivable: (outstanding imprest) | 13 | 110,418 | (227,815) |
| Increase/(Decrease) in Accounts Payable: (deposits and retention) | 14 | (1,230,950) | - |
| Net cash flows from Operating Activities | | 20,938,383 | 25,830,922 |
| CASHFLOW FROM INVESTING ACTIVITIES | | | |
| Acquisition of Assets | 7 | (23,017,800) | (27,324,276) |
| Net cash flows from Investing Activities | | (23,017,800) | (27,324,276) |
| NET INCREASE IN CASH AND CASH EQUIVALENT | | | |
| | | (2,079,417) | (1,493,354) |
| Cash and cash equivalent at BEGINNING of the year | | 2,774,428 | 4,267,780 |
| Cash and cash equivalent at END of the year | | 695,010 | 2,774,428 |

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The State Department of Shipping and Maritime Affairs financial statements were approved on 25th September 2023 and signed by:



Principal Secretary
Name: Geoffrey E. KAITUKO



Head of Accounting Unit
Name: CPA Henry Mobegi
ICPAK M/No: 9167

State Department of shipping and Maritime Affairs
Annual Report and Financial Statements for the year ended 30th June 2023

14. Statement of Comparison of Budget and Actual Amounts for FY2022/23

| Revenue/Expense Item | Original Budget a | Adjustments b | Final Budget e=a+b | Actual on Comparable Basis d | Budget Utilisation Difference e-c-d | % of Utilisation Difference to Final Budget f=d/c % |
|-------------------------------------|----------------------|----------------------|-----------------------|---------------------------------|--|--|
| RECEIPTS | | | | | | |
| Exchequer releases | 1,065,000,000 | (501,384,776) | 563,615,224 | 541,258,417 | 22,356,806.70 | 96% |
| Other Receipts | 2,295,000,000 | 12,000,000 | 2,307,000,000 | 2,296,480,721 | 10,519,279 | 100% |
| Total Receipts | 3,360,000,000 | (489,384,776) | 2,870,615,224 | 2,837,739,138 | 32,876,086 | 99% |
| Payments | | | | | | |
| Compensation of Employees | 113,000,000 | 5,000,000.00 | 108,000,000 | 107,016,297 | 983,703 | 99% |
| Use of goods and services | 165,354,954 | (15,360,423) | 149,994,531 | 133,890,256 | 16,104,275 | 89% |
| Transfers to Other Government Units | 2,972,000,000 | (398,600,000) | 2,573,400,000 | 2,560,041,683 | 13,358,317 | 99% |
| Social Security Benefits | 15,293,046 | 2,063,703.00 | 13,229,343 | 13,008,598 | 220,745 | 98% |
| Acquisition of Assets | 94,352,000 | (68,360,650) | 25,991,350 | 23,017,800 | 2,973,550 | 89% |
| Grand Total | 3,360,000,000 | (489,384,776) | 2,870,615,224 | 2,836,974,634 | 33,640,590 | 99% |
| Surplus/Deficit | - | - | - | 764,504 | (764,504) | |

(a) Variance analysis:

Underutilization of 89% on Acquisition of Assets and use of goods and services is a result of change in the supplementary budget due to government reorganization.

(b) Reallocations within the year: (Kshs. (489,384,776) is the changes between the original and final budget are as a result of reallocations within the budget or other causes as per IPSAS 1.7.23.) The actual on a comparable basis in the Summary Statement of Appropriation: Recurrent and Development Combined agree to the amounts reported in the Statement of Receipts and Payments.

The State Department of Shipping and Maritime Affairs financial statements were approved on 25th September 2023 and signed by:



Principal Secretary

Name: Geoffrey E. KAITUKO



Head of Accounting Unit

Name: CPA Henry Mobegi

ICPAK M/No: 9167

State Department of shipping and Maritime Affairs
Annual Report and Financial Statements for the year ended 30th June 2023

13 (a) Statement of Comparison of Budget and Actual Amounts: Recurrent for FY2022/23

| Revenue/Expense Item | Original Budget a | Adjustments b | Final Budget c=a+b | Actual on Comparable Basis d | Budget Utilisation Difference e-d-c | % of Utilisation Difference to Final Budget f-d/c % |
|------------------------------------|----------------------|--------------------|-----------------------|---------------------------------|--|---|
| RECEIPTS | | | | | | |
| Exchequer releases | 576,000,000 | (13,284,776) | 562,715,224 | 551,217,854 | 11,497,370 | 98% |
| Other Receipts | 1,606,000,000 | 12,000,000 | 1,618,000,000 | 1,607,480,721 | 10,519,279 | 99% |
| Total Receipts | 2,182,000,000 | (1,284,776) | 2,180,715,224 | 2,158,698,575 | 22,016,649 | 99% |
| PAYMENTS | | | | | | |
| Compensation of Employees | 113,000,000 | (5,000,000) | 108,000,000 | 107,016,297 | 983,703 | 99% |
| Use of goods and services | 135,354,954 | 14,439,577 | 149,794,531 | 133,890,256 | 15,904,275 | 89% |
| Transfers to Other Government Unit | 1,894,000,000 | (9,600,000) | 1,884,400,000 | 1,871,041,683 | 13,358,317 | 99% |
| Social Security Benefits | 15,293,046 | (2,063,703) | 13,229,343 | 13,008,598 | 220,745 | 98% |
| Acquisition of Assets | 24,352,000 | 939,350 | 25,291,350 | 22,392,800 | 2,898,550 | 89% |
| Grand Total | 2,182,000,000 | (1,284,776) | 2,180,715,224 | 2,147,349,634 | 33,365,590 | 98% |
| Surplus/Deficit | - | - | - | 11,348,941 | (11,348,941) | |

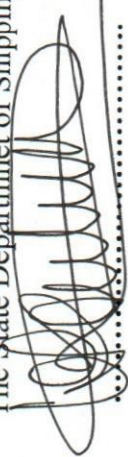
Notes

(a) Variance analysis

Underutilization of 89% on Acquisition of Assets and use of goods and services is a result of change in the supplementary budget due to government reorganization.

(b) Reallocations within the year: (kshs. 1,284,776) the changes between the original and final budget are as a result of reallocations within the budget or other causes as per IPSAS 1.7.23.) The actual on a comparable basis in the Summary Statement of Appropriation: Recurrent and Development Combined agree to the amounts reported in the Statement of Receipts and Payments.

The State Department of Shipping and Maritime Affairs financial statements were approved on 25th September 2023 and signed by:


.....

Name: Geoffrey E. KAITUKO

Principal Secretary


.....

Name: CPA Henry Mobegi

Head of Accounting Unit

ICPAK M/No: 9167

*State Department of shipping and Maritime Affairs
Annual Report and Financial Statements for the year ended 30th June 2023*

13 (b) Statement Of Comparison of Budget and Actual Amounts: Development for FY2022/23

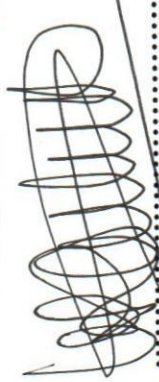
| Revenue/Expense Item | Original Budget a | Adjustments b | Final Budget c=a+b | Actual on Comparable Basis d | Budget Utilisation Difference e=c-d | % of Utilisation f=d/c % |
|-------------------------------------|----------------------|----------------------|-----------------------|------------------------------------|---|--------------------------------|
| RECEIPTS | | | | | | |
| Other Receipts | 689,000,000 | - | 689,000,000 | 689,000,000 | - | 100% |
| Exchequer releases | 489,000,000 | (488,100,000) | 900,000 | - | 900,000 | 0% |
| Total Receipts | 1,178,000,000 | (488,100,000) | 689,900,000 | 689,000,000 | 900,000 | 100% |
| Payments | | | | | | |
| Use of goods and services | 30,000,000 | (29,800,000) | 200,000.00 | - | 200,000 | 0% |
| Transfers to Other Government Units | 1,078,000,000 | (389,000,000) | 689,000,000 | 689,000,000 | - | 100% |
| Acquisition of Assets | 70,000,000 | (69,300,000) | 700,000 | 625,000 | 75,000 | 89% |
| Grand Total | 1,178,000,000 | (488,100,000) | 689,900,000 | 689,625,000 | 275,000 | 100% |
| Surplus/Deficit | - | - | - | (625,000) | 625,000 | |

(a) Variance analysis

Underutilization on the entire Development budget is as a result change in supplementary budget .

(b) Reallocations within the year: (Kshs. 488,100,000 the changes between the original and final budget are as a result of reallocations within the budget or other causes as per IPSAS 1.7.23.) *The actual on a comparable basis in the Summary Statement of Appropriation: Recurrent and Development Combined agree to the amounts reported in the Statement of Receipts and Payments.*

The State Department of Shipping and Maritime Affairs financial statements were approved on 25th September 2023 and signed by:


.....

Name: Geoffrey E. KAITUKO
Principal Secretary


.....

Name: CPA Henry Mobegi
Head of Accounting Unit
ICPAK M/No: 9167

State Department of shipping and Maritime Affairs
Annual Report and Financial Statements for the year ended 30th June 2023

13 (c) Budget Execution by Programmes and Sub-Programmes for FY2023

| Programme/Sub-programme | Approved Budget | Actual on comparable basis | Budget utilization difference |
|-------------------------------|----------------------|----------------------------|-------------------------------|
| | 2,870,615,224 | 2,147,049,536 | 723,565,688 |
| Shipping and Maritime Affairs | 248,539,992 | 231,523,442 | 17,016,550 |
| Shipping Affairs | 100,556,187 | 89,384,518 | 11,171,669 |
| Maritime Affairs-BMA | 2,521,519,045 | 2,516,066,675 | 5,452,370 |
| Grand Total | 2,870,615,224 | 2,836,974,634 | 33,640,590 |

(NB: This statement is a disclosure statement indicating the utilisation in the same format at the State Department of Shipping and Maritime Affairs' budgets which are programme based. It should tie with the combined Statement of Budgeted Vs Actual Amounts. Ensure that this document is completed to enable consolidation by the National Treasury)

15. Notes to the Financial Statements

1. Statement of Compliance and Basis of Preparation

The financial statements have been prepared in accordance with Cash-basis International Public Sector Accounting Standards (IPSAS) as prescribed by the Public Sector Accounting Standards Board (PSASB) and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions. The financial statements comply with and conform to the form of presentation prescribed by the PSASB. The accounting policies adopted have been consistently applied to all the years presented.

2. Reporting State Department of Shipping and Maritime Affairs

The financial statements are for the **State Department of Shipping and Maritime Affairs**. The financial statements encompass the reporting State Department of Shipping and Maritime Affairs as specified under Section 81 of the PFM Act 2012 and also comprise of the following development projects implemented by the State Department of Shipping and Maritime Affairs:

3. Reporting Currency

The financial statements are presented in Kenya Shillings (Kshs), which is the functional and reporting currency of the Government and all values are rounded to the nearest Kenya Shilling.

Significant Accounting Policies

The accounting policies set out in this section have been consistently applied by the State Department of Shipping and Maritime Affairs for all the years presented.

a) Recognition of Receipts

The State Department of Shipping and Maritime Affairs recognises all receipts from the various sources when the event occurs, and the related cash has been received.

(i) Transfers from the Exchequer

Transfers from the exchequer are recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving State Department of Shipping and Maritime Affairs.

(ii) External Assistance

External assistance is received through grants and loans from multilateral and bilateral development partners. Grants and loans shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient State Department of Shipping and Maritime Affairs or by the beneficiary. In case of grant/loan in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice. A similar recognition criteria is applied for loans received in the form of a direct payment. During the year ended 30th June 2023, there were no instances of non-compliance with terms and conditions which have resulted in cancellation of external assistance loans.

(iii) Miscellaneous receipts

These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognized in the financial statements the time associated cash is received.

b) Recognition of payments

The State Department of Shipping and Maritime Affairs recognises all payments when the event occurs, and the related cash has been paid out by the *State Department of Shipping and Maritime Affairs*.

Significant Accounting Policies (Continued)

i) Compensation of Employees

Salaries and wages, allowances, statutory contribution for employees are recognized in the period when the compensation is paid.

ii) Use of Goods and Services

Goods and services are recognized as payments in the period when the goods/services are paid for. Such expenses, if not paid during the period where goods/services are consumed, shall be disclosed as pending bills.

iii) Interest on Borrowing

Borrowing costs that include interest are recognized as payment in the period in which they are paid for.

iv) Principal on borrowing

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made.

v) Acquisition of Fixed Assets

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment. A fixed asset register is maintained and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the financial statements.

vi) In-kind contributions

In-kind contributions are donations that are made to the State Department of Shipping and Maritime Affairs in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the State Department of Shipping and Maritime Affairs includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.

Significant Accounting Policies (Continued)

vii) Third Party Payments

Included in the receipts and payments, are payments made on the State Department of Shipping and Maritime Affairs' behalf to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties in the statement of receipts and payments as proceeds from foreign borrowings or grants.

c) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. A bank account register is maintained, and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the financial statements.

Restriction on Cash

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation. Amounts maintained in deposit bank accounts are restricted for use in refunding third party deposits and retentions. As of 30th June 2023, this amounted to Kshs 80,786 compared to Kshs 1,311,736 in prior period as indicated on note 10. There were no other restrictions on cash during the year.

Significant Accounting Policies (Continued)

d) Imprests and advances

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year are treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or Authority to Incur Expenditure (AIE) holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

e) Third party deposits and retention

For the purposes of these financial statements, deposits and retentions held on behalf of third parties have been recognized on an accrual basis (as accounts payables). This is in recognition of the government practice of retaining a portion of contracted services and works pending fulfilment of obligations by the contractor and to hold deposits on behalf of third parties. This is an enhancement to the cash accounting policy adopted for National Government Ministries and Agencies. Other liabilities including pending bills are disclosed in the financial statements.

f) Pending Bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items. When the pending bills are finally settled, such payments are included in the Statement of Receipts and Payments in the year in which the payments are made.

g) Budget

The budget is developed on a comparable accounting basis (cash basis except for imprest and deposits and retentions, which are accounted for on an accrual basis), the same accounts classification basis, and for the same period as the financial statements. The original budget

was approved by Parliament in *June 2022 for the period 1st July 2022 to 30th June 2022* as required by Law and there were xx number of supplementary adjustments to the original budget during the year.

A comparison of the actual performance against the comparable budget for the financial year under review has been included in the financial statements. Government Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-State Department of Shipping and Maritime Affairs transfers.

h) Comparative Figures

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

i) Subsequent Events

There have been no events after the financial year end with a significant impact on the financial statements for the year ended 30th June 2023.

j) Prior Period Adjustment

During the year, errors that have been corrected are disclosed under note 12 explaining the nature and amounts.

k) Related Party Transactions

Related party means parties are related if one party has the ability to:

- a) Control the other party or
- b) Exercise significant influence over the other party in making financial and operational decisions, or if the related party State Department of Shipping and Maritime Affairs are subject to common control.

Related party transaction is a transfer of resources or obligations between related parties regardless of whether a price is charged.

Significant Accounting Policies (Continued)

l) Contingent Liabilities

A contingent liability is:

- a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the State Department of Shipping and Maritime Affairs; or
- b) A present obligation that arises from past events but is not recognised because:
 - i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
 - ii) The amount of the obligation cannot be measured with sufficient reliability.

Some of contingent liabilities may arise from: litigation in progress, guarantees, indemnities. Letters of comfort/ support, insurance, Public Private Partnerships, The *State Department of Shipping and Maritime Affairs* 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. **Note** and *Annex 7* of this financial statement is a register of the contingent liabilities in the year.

Notes to the Financial Statements

1 Exchequer releases

| Description | 2022- 2023 Kshs | 2021- 2022 Kshs |
|--|--------------------|--------------------|
| Total Exchequer Releases for quarter 1 | 111,376,519 | 91,498,217 |
| Total Exchequer Releases for quarter 2 | 140,587,727 | 142,765,662 |
| Total Exchequer Releases for quarter 3 | 23,690,687 | 110,566,863 |
| Total Exchequer Releases for quarter 4 | 265,603,484 | 146,697,871 |
| TOTAL | 541,258,417 | 491,528,614 |

2 Other Receipts

| | 2022- 2023 Kshs | 2021- 2022 Kshs |
|---|----------------------|----------------------|
| Incidental Sales by Non-Market Establishments Collected as AIA | 2,296,480,721 | 1,818,203,216 |
| TOTAL | 2,296,480,721 | 1,818,203,216 |

3 Compensation to Employees

| | 2022- 2023 Kshs | 2021- 2022 Kshs |
|--|--------------------|--------------------|
| Basic salaries of permanent employees | 64,803,104 | 57,056,111 |
| Personal allowances paid as part of salary | 42,213,194 | 38,267,858 |
| TOTAL | 107,016,297 | 95,323,968 |

State Department of shipping and Maritime Affairs
Annual Report and Financial Statements for the year ended 30th June 2023

Notes to the Financial Statements (Continued)

4 Use of Goods and Services

| | 2022- 2023 Kshs | 2021- 2022 Kshs |
|--|--------------------|--------------------|
| Communication, supplies and services | 696,536 | 1,966,406 |
| Domestic travel and subsistence | 13,329,433 | 8,065,823 |
| Foreign travel and subsistence | 3,673,209 | 1,682,701 |
| Printing, advertising and information supplies & services | 49,337,755 | 1,875,200 |
| Rentals of produced assets | 24,201,173 | 24,201,080 |
| Training expenses | 9,224,621 | 4,109,868 |
| Hospitality supplies and services | 9,282,402 | 6,020,409 |
| Specialised materials and services | 223,140 | 2,680,900 |
| Office and general supplies and services | 1,967,413 | 5,109,115 |
| Other operating expenses | 16,594,300 | 16,741,307 |
| Routine maintenance – vehicles and other transport equipment | 417,600 | 937,806 |
| Routine maintenance – other assets | 948,264 | 1,888,389 |
| Fuel Oil and Lubricants | 3,994,410 | 3,252,907 |
| TOTAL | 133,890,256 | 78,531,910 |

5 Grants and Transfers to Other Government Entities

| Description | 2022- 2023 Kshs | 2021- 2022 Kshs |
|---|----------------------|----------------------|
| Transfers to National Government entities (SCOA Codes 2630100, 2630200, 2640400, 2640500, 2649900, 2820100, 2820200, 2820300) | 1,871,041,683 | 1,446,203,216 |
| See attached list | 689,000,000 | 660,000,000 |
| TOTAL | 2,560,041,683 | 2,106,203,216 |

Notes to the Financial Statements (Continued)

5b: Transfers to self – reporting entities in the year

The above transfers were made to the following self-reporting entities in the year:

| Description | Recurrent Kshs | Development Kshs | 2022-2023 Kshs |
|-----------------------------------|----------------------|---------------------|----------------------|
| Transfers to SAGAs and SCs | | | |
| Kenya National Shipping Lines | 65,000,000 | - | 65,000,000 |
| Kenya National Shipping Lines-AIA | 4,480,721 | - | 4,480,721 |
| Kenya Maritime Authority-AIA | 1,483,000,000 | 689,000,000 | 2,172,000,000 |
| Bandari Maritime Authority | 198,560,962 | - | 198,560,962 |
| Bandari Maritime Authority AIA | 120,000,000 | - | 120,000,000 |
| Total | 1,871,041,683 | 689,000,000 | 2,560,041,683 |

We have confirmed these amounts with the recipient entities and attached these confirmations as an Appendix to this financial statement.

6 Social Security Benefits

| | 2022- 2023 Kshs | 2021- 2022 Kshs |
|--|--------------------|--------------------|
| Government pension and retirement benefits | 13,008,598 | 625,071 |
| TOTAL | 13,008,598 | 625,071 |

State Department of shipping and Maritime Affairs
Annual Report and Financial Statements for the year ended 30th June 2023

7 Acquisition of Assets

| | 2022- 2023 Kshs | 2021- 2022 Kshs |
|--|--------------------|--------------------|
| Non Financial Assets | | |
| Refurbishment of Buildings | 312,000 | 3,872,610 |
| Research, Feasibility Studies, Project Preparation and Design, Project Supervision | 3,365,900 | 14,906,544 |
| Purchase of Vehicles and Other Transport Equipment | 16,900,000 | |
| Purchase of Office Furniture and General Equipment | 2,439,900 | 8,545,122 |
| TOTAL | 23,017,800 | 27,324,276 |

8 Cash and Bank Accounts

| Description | 2022-2023 Kshs | 2021-2022 Kshs |
|---------------------------|-------------------|-------------------|
| Bank Accounts (Note 19 A) | 695,010 | 2,774,428 |
| Cash on hand (Note 19 B) | - | - |
| Total | 695,010 | 2,774,428 |

8A: Bank Accounts

| Name of Bank, Account No. & currency | Amount in bank account currency | Indicate whether recurrent, Development, deposit e.t.c | 2022- 2023 | 2021- 2022 |
|---|------------------------------------|---|----------------|------------------|
| | | | Kshs | Kshs |
| Central Bank of Kenya, 1000384344, KShs | Ksh | Reccurent | - | 680,368 |
| Central Bank of Kenya, 1000516305, KShs | Ksh | Development | 614,224 | 782,324 |
| Central Bank of Kenya, 1000384368, KShs | Ksh | Deposit | 80,786 | 1,311,736 |
| Total | | | 695,010 | 2,774,428 |

8B: Cash on hand

| Description | 2022-2023 Kshs | 2021-2022 Kshs |
|--|-------------------|-------------------|
| Cash in hand – Held in domestic currency | - | - |
| Total | - | - |

Notes to the Financial Statements (Continued)

Detailed Cash is as follows:

| Description | 2022-2023 | 2021-2022 |
|---------------|-----------|-----------|
| | Kshs | Kshs |
| NSSF Building | - | - |
| Total | - | - |

9 : Imprests and Advances

| Description | 2022- 2023 | 2021- 2022 |
|---------------------|----------------|----------------|
| | Kshs | Kshs |
| Government Imprests | 150,280 | 260,698 |
| TOTAL | 150,280 | 260,698 |

Imprests and advances Aging analysis.

| | 2022-2023 | % of the total | 2021-2022 | % of the total |
|----------------|----------------|----------------|----------------|----------------|
| Under one year | 150,280 | 100% | 260,698 | 100% |
| Total | 150,280 | | 260,698 | |

10 Third party deposits and retention

| Description | 2022-2023 | | 2021-2022 | |
|-------------------------|-------------------|-----------------------|------------------|-----------------------|
| | Kshs | | Kshs | |
| Retention | | - | | 1,311,736 |
| Deposits | | 80,786 | | - |
| Total | | 80,786 | | 1,311,736 |
| Ageing analysis: | Current FY | % of the Total | Prior FY | % of the Total |
| Under one year | 80,786 | 100% | 1,311,736 | 100% |
| Total | 80,786 | | 1,311,736 | |

11 Fund Balance Brought Forward

| | 2022- 2023 Kshs | 2021- 2022 Kshs |
|------------------------------------|--------------------|--------------------|
| Bank accounts | 2,774,428 | 4,267,780 |
| Receivables - Outstanding Imprests | 260,698 | 32,883 |
| Payables - Deposits | (1,311,736) | (1,311,736) |
| TOTAL | 1,723,390 | 2,988,927 |

12 Prior Year Adjustments

| Description of the error | Balance b/f FY 2021/2022 as per Financial statements | Adjustments | Adjusted Balance b/f FY 2021/2022 |
|--------------------------|--|--------------------|--------------------------------------|
| | Kshs | Kshs | Kshs |
| Bank account Balances | 2,774,428 | (1,462,692) | 1,311,736 |
| Imprests and Advances | 260,698 | (260,698) | - |
| Accounts Payables | (1,311,736) | - | (1,311,736) |
| | 1,723,390 | (1,723,390) | - |

** (The prior year relates to swept Recurrent and Developments balances to the exchequer. This reduces the fund balance of the State Department of Shipping and Maritime Affairs).

13 (Increase)/ Decrease in Advances and Imprests

| Description of the error | 2022- 2023 KShs | 2021- 2022 KShs |
|---|--------------------|--------------------|
| Outstanding Receivables as at 1 st July 2021 | 260,698 | 32,883 |
| Outstanding Receivables as at 30th June 2022 | 150,280 | 260,698 |
| Net change in Receivables | 110,418 | (227,815) |

14 Increase/ (Decrease) in Retention and Third-Party Deposits

| Description of the error | 2022- 2023 KShs | 2021- 2022 KShs |
|--|--------------------|--------------------|
| Outstanding Payables as at 1 st July 2022 | 1,311,736 | 1,311,736 |
| Outstanding Payables as at 30th June 2023 | 80,786 | 1,311,736 |
| Net change in Payables | (1,230,950) | - |

15 Related Party Disclosures

The following comprises related parties to **the State Department of Shipping and Maritime Affairs**

- i) Key management personnel that include the Cabinet Secretaries and Accounting Officers
- ii) Other Ministries Departments and Agencies and Development Projects;
- iii) County Governments; and
- iv) State Corporations and Semi-Autonomous Government Agencies.

16 Other Important Disclosures

16.1 Related party transactions:

| Description | 2022-2023 | 2021-2022 |
|---|----------------------|----------------------|
| | Kshs | Kshs |
| Transfers to Related Parties | | |
| Transfers to SCs and SAGAs | 2,560,041,683 | 2,106,203,216 |
| Total Transfers to Related Parties | 2,560,041,683 | 2,106,203,216 |
| | | |
| Transfers from Related Parties | | |
| Transfers from the Exchequer | 541,258,417 | 491,528,614 |
| Total Transfers from Related Parties | 541,258,417 | 491,528,614 |

Transfers to related parties comprises :-The transfers to SAGAs from SDM During the FY 2022/23 amounted to kshs.263,560,962.

The AIA collections was as follows:

| Ref | SC, SAGA or Public Fund's name | Amount transferred during the year |
|-----|--------------------------------|------------------------------------|
| 1 | Kenya National Shipping Lines | 4,480,721 |
| 2 | Bandari Maritime Academy | 234,038,094 |
| 3 | Kenya Maritime Authority | 2,172,000,000 |
| | Total | 2,410,518,815 |

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16.2 Pending Accounts Payable (See Annex 1)

| | Balance b/f FY 2021/2022 | Additions for the period | Paid during the year | Balance c/f FY 2022/2023 |
|--------------------|--------------------------------|-----------------------------|-------------------------|--------------------------------|
| Description | Kshs | Kshs | Kshs | Kshs |
| Supply of Goods | 2,098,800 | 8,072,751 | - | 10,171,551 |
| Supply of Services | 3,489,206 | 16,736,216 | - | 20,225,422 |
| Works | 244,487 | 1,400,513 | - | 1,645,000 |
| Total | 5,832,493 | 26,209,480 | - | 32,041,973 |

16.3: Pending Staff Payables (See Annex 2)

None during the year under review.

Other important disclosures (continued)

16.4: Other Pending Payables (See Annex 3)

| | Balance b/f Previous FY | Additions for the period | Paid during the year | Balance c/f Current FY |
|------------------------------|-------------------------------|-----------------------------|-------------------------|------------------------------|
| Description | Kshs | Kshs | Kshs | Kshs |
| Amounts due to Third Parties | 80,786 | - | (-) | 1,311,736 |
| Total | 80,786 | - | (-) | 1,311,736 |

16.5 External Assistance

No external assistance during the year.

16.6 Contingent Liabilities

No Contingent Liabilities during the year.

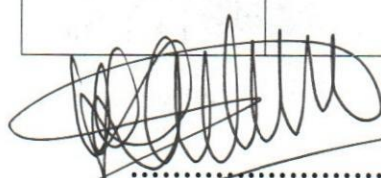
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16.7 Progress on follow up of Prior Years Auditor-General's recommendations.

The following is the summary of issues raised by the Auditor-General during the prior year and management comments that were provided.

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|------------------------------------|--|-----------------------------------|--|
| 1 | Pending Accounts Payable | The management is making every effort to settle the pending bills within this current financial year. | In progress | Financial year 2021/22 |
| 2 | Budgetary Performance and Controls | The management has already discussed issues of budgeting of AIAs with the SAGAs and prompt follow of quarterly returns to ensure they meet the target. | In progress | Financial year 2021/2 |


 Name: Geoffrey E. KAITUKO
 Principal Secretary


 Name: CPA Henry Mobegi
 Head of Accounting Unit
 ICPAK M/No: 9167

Annex 4 – Summary of Fixed Asset Register

| | Historical Costs B/fwd | Additions for the Period | Disposal During the Year | Balance c/f FY 2022/2023 |
|--|------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Description | Kshs | Kshs | Kshs | Kshs |
| Building and structures | 19,415,154 | 3,677,900 | - | 23,093,054 |
| Office equipment, furniture and fittings | 10,771,322 | 2,439,900 | - | 13,211,222 |
| Purchase of vehicles and other Transport equipment | - | 16,900,000 | - | 16,900,000 |
| Total | 30,186,476 | 23,017,800 | - | 53,204,276 |

(NB: The balance as at the end of the year is the cumulative cost of all assets bought and inherited by the Ministry, Department or Agency. Additions during the year should tie to note 18 on acquisition of assets during the year. Ensure this section is complete and covers all the State Department of Shipping and Maritime Affairs' assets. Ensure the complete fixed asset register is separately prepared as per circular number 5/2020 and follow up reminder of circular No.23/2020 of The National Treasury)

Annex 5 – List of Projects implemented by the State Department of Shipping and Maritime Affairs'
None during the year under review.

Annex 6 – List of SCs, Sagas and Public Funds Under (Insert State Department of Shipping and Maritime Affairs' Name)

| Ref | SC, SAGA or Public Fund's name | Amount transferred during the year | Inter- State Department of Shipping and Maritime Affairs reconciliations done?(yes/no) |
|-----|--------------------------------|------------------------------------|--|
| 1 | Kenya National Shipping Lines | 65,000,000 | Yes |
| 2 | Bandari Maritime Academy | 198,560,962 | Yes |

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Annex 7 – Contingent Liabilities Register-None

Annex 8: Reporting of Climate Relevant Expenditures-None

Annex 9: Disaster Expenditure Reporting Template-None

Annex 10- Reports Generated from IFMIS-Attached