# KENYA PORTS AUTHORITY RETIREMENT BENEFITS SCHEME 2012

## ANNUAL REPORT AND FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2013

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**TRUSTEES**

Ms Muthoni Gatere - Chairperson
Mr Fredrick Oyugi
Mrs Constance Mcharo
Mr Alphaeous Aluoch

**ADMINISTRATOR**

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Kenya Ports Authority
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P.O. Box 1019 - 80100
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**INVESTMENT MANAGER**

Genesis Kenya Investment Management Limited
P.O. Box 79217 – 00200
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Off Riverside Drive

**CUSTODIAN**

CFC Stanbic Custody Division
CfC Stanbic Centre, 1st floor, Chiromo Road,
P.O.Box 30550 - 00100
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**AUDITOR**

PricewaterhouseCoopers
PwC Tower, Waiyaki Way/ Chiromo Road
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PO Box 43963, 00100
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**BANKERS**

CFC Stanbic Bank Kenya Limited
P.O Box 90131 - 80100
Mombasa

**REGISTERED OFFICE**

The address of the registered office is:

Old Cannon Towers, 7Th Floor
Moi Avenue
P.O box 1019-80100
Mombasa

The Trustees submit their report together with the audited financial statements of the Kenya Ports Authority Retirement Benefits Scheme 2012 (the "Scheme") for the year ended 31 December 2013.

## ESTABLISHMENT, NATURE AND STATUS OF THE SCHEME

The Scheme was established and is governed, by a trust deed dated 24 October 2012. It is a defined contribution plan and provides, under the rules of the Scheme, retirement benefits for the staff of Kenya Ports Authority. It is a tax exempt approved Scheme, up to the statutory limit, under the Income Tax Act and is registered with the Retirement Benefit Authority. Contributions to the Scheme by both the employer and employees are at the rate of 20% and 10% of the individual members' basic salaries respectively. The Scheme commenced operations on 1 January 2013.

## MEMBERSHIP

| | **2013** |
|---|---|
| At start of year | - |
| Joiners | 4,441 |
| Less: | |
| Secessionists | 38 |
| At end of year | 4,479 |

## FINANCIAL REVIEW

The statement of changes in net assets available for benefits on page 6 shows an increase in the net assets of the Scheme for the year of Shs 772,261,000 and the statement of net assets available for benefits on page 7 shows the Scheme's net assets as Shs 772,261,000

## INVESTMENT OF FUNDS

Under the terms of their appointment, Genesis Kenya Investments Management Limited are responsible for the investment of available funds.

The overall responsibility for investment and performance lies with the Trustees.

## EXPENSES

Some costs of administration and management of the scheme are borne by Kenya Ports Authority.

For the Trustees

Chairperson

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The Retirement Benefits (Occupational Retirement Benefits Schemes) Regulations, 2000 made under Retirement Benefits Act, 1997 requires the Trustees to prepare financial statements in a prescribed form for each financial year. It also requires the trustees to ensure that the Fund keeps proper accounting records of its income, expenditure, liabilities and assets, and that contributions are remitted to the custodian in accordance with the rules of the Fund.

The Trustees accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the Retirement Benefits (Occupational Retirement Benefits Schemes) Regulations, 2000.

They also accept responsibility for:

i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

ii) Selecting and applying appropriate accounting policies;

iii) Making accounting estimates and judgments that are reasonable in the circumstances.

The Trustees are of the opinion that the financial statements give a true and fair view of the net assets available for benefits and changes in net assets available for benefits in accordance with International Financial Reporting Standards.

The Trustees certify that to the best of their knowledge and belief the information furnished to the auditor for the purposes of the audit was correct and complete in every respect.

Approved by the trustees on 30 JUNE 2014 and signed on its behalf by:

Chairperson
Ms Muthoni Gatere

Trustee
Mr Fredrick Oyugi

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# REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF KENYA PORTS AUTHORITY RETIREMENT BENEFITS SCHEME 2012

## Report on the financial statements

We have audited the accompanying financial statements of Kenya Ports Authority Retirement Benefits Scheme 2012 (the "Scheme") set out on pages 6 to 19. These financial statements comprise the statement of changes in net assets available for benefits, the statement net assets available for benefits and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Trustees' responsibility for the financial statements*

The Trustees are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the Retirement Benefits (Occupational Retirement Benefit Schemes) Regulations, 2000 and for such internal control, as the Trustees determine necessary, to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Scheme's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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**REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF KENYA PORTS AUTHORITY RETIREMENT BENEFITS SCHEME 2012 (continued)**

*Opinion*

In our opinion the accompanying financial statements give a true and fair view of the Schemes' net assets available for benefits at 31 December 2013 and of the changes in net assets and cash flows for the year then ended in accordance with International Financial Reporting Standards.

The engagement leader responsible for the audit resulting in this independent auditor's report is CPA Moses Nyabanda - P/No. 2047.

PricewaterhouseCoopers

Certified Public Accountants

Nairobi

30 JUNE 2014

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30 JUN 2014
RETIREMENT BENEFITS AUTHORITY

## Statement of changes in net assets available for benefits

| | Notes | 2013 Shs '000 |
|---|---|---|
| **Income from dealings with members** | | |
| Contributions received | 4 | 754,429 |
| **Outgoings from dealings with members** | | |
| Benefits payable | 5 | (3,520) |
| **Net additions from dealings with members** | | 750,909 |
| **Returns on investments** | | |
| Net investment income | 6 | 15,740 |
| Changes in fair value of financial assets at fair value through profit or loss | 7 | 9,729 |
| Gains on disposal of financial assets at fair value through profit or loss | 7 | 1,120 |
| Less: Investment expenses | 8 | (2,041) |
| **Net returns on investments** | | 24,548 |
| Administrative expenses | 9 | (2,685) |
| Income tax expense | 13 | (511) |
| **Increase in net assets for the year** | | 772,261 |
| Net assets available for benefits at end of year | | 772,261 |

The notes on pages 9 to 19 are an integral part of these financial statements.

**Statement of net assets available for benefits**

| | Notes | 2013 Shs'000 |
|---|---|---|
| **Assets** | | |
| Financial assets at fair value through profit or loss | 7 | 531,327 |
| Other receivables and accrued income | 10 | 1,450 |
| Cash and cash equivalents | 12 | 247,234 |
| **Total assets** | | 780,011 |
| **Less: Liabilities** | | |
| Benefits payable | 5 | 3,520 |
| Other payables and accrued expenses | 11 | 3,719 |
| Income tax payable | | 511 |
| **Total liabilities** | | 7,750 |
| **Net assets available for benefits** | | 772,261 |

The financial statements on pages 6 to 19 were approved for issue by the Trustees on 30 JUNE 2014 and signed on their behalf by:

**Chairperson:**
Ms Muthoni Gatere

**Trustee:**
Mr Fredrick Oyugi

The notes on pages 9 to 19 are an integral part of these financial statements.

## Statement of cash flows

| | Notes | 2013 Shs'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Contributions received | | 754,429 |
| Administrative expenses paid | | (844) |
| Net cash from operating activities | | 753,585 |
| **Cash flows from investing activities** | | |
| Investment income received | | 15,783 |
| Investment management expenses paid | | (1,116) |
| Purchase of financial assets at fair value through profit or loss | 7 | (555,079) |
| Proceeds from disposal of financial assets at fair value through profit or loss | 7 | 34,061 |
| Net cash used in investing activities | | (506,351) |
| **Increase in cash and cash equivalents** | | 247,234 |
| Movement in cash and cash equivalents | | |
| At start of year | | - |
| Increase in cash and cash equivalents | | 247,234 |
| At end of year | 12 | 247,234 |

The notes on pages 9 to 19 are an integral part of these financial statements.

## Notes

### 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

### (a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), the Retirement Benefits Act, 1997 as amended, and with the Retirement Benefits (Occupational Retirement Benefits Schemes) Regulations, 2000.

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay benefits that fall due after the end of the year.

The financial statements are presented in Kenyan Shillings (Shs), rounded to the nearest thousand. The measurement applied is the historical cost basis, except where otherwise stated in the accounting policies.

### Changes in accounting policy and disclosures

*(a) New and amended standards adopted by the Scheme*

The Scheme has adopted all IFRSs effective as at 1 January 2013. There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 January 2014 that would be expected to have a material impact on the Scheme.

The Scheme adopted IFRS 13 Fair value measurement (applicable for financial years beginning on/after 1 January 2013) in the year.

IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures; it does not say when to measure fair value or require additional fair value measurements. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal market is the market with the greatest volume and level of activity for the asset or liability that can be accessed by the entity. The guidance includes enhanced disclosure requirements for the Scheme. The requirements are similar to IFRS 7, 'Financial instruments: Disclosures' but apply to all assets and liabilities measured at fair value, not just financial ones.

**Notes (continued)**

**1 Summary of significant accounting policies (continued)**

**Changes in accounting policy and disclosures (continued)**

*(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Scheme*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements.

IFRS 9, part 1, Financial instruments, was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. For the scheme all financial assets will be carried at fair value. All debt instruments are to be measured at fair value through statement of changes in net assets available for benefits.

All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through statement of changes in net assets available for benefits. Dividends are to be presented in statement of changes in net assets available for benefits, as long as they represent a return on investment.

IFRS 9, part 2 was issued in October 2010 and includes guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation of financial liabilities and for derecognising financial instruments has been relocated from IAS 39, 'Financial instruments: Recognition and Measurement', without change except for financial liabilities that are designated at fair value through statement of changes in net assets available for benefits. Under the new standard, entities with financial liabilities at fair value through statement of changes in net assets available for benefits recognise changes in the liability's credit risk directly in statement of changes in net assets available for benefits.

While adoption of IFRS 9 is mandatory, earlier adoption is permitted. The Trustees are considering the implications of the Standard, the impact on the Scheme and the timing of its adoption by the Scheme.

**Notes (continued)**

**1 Summary of significant accounting policies (continued)**

**(b) Foreign currency translation**

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Scheme operates (the "functional currency"). The financial statements are presented in Kenya Shillings (Shs) rounded to the nearest thousand, which is the Scheme's functional currency.

(ii) Transactions and balances

Foreign currency transactions are translated into Kenya Shillings using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the in the statement of changes in net assets available for benefits.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through statement of changes in net assets available for benefits are recognised in the statement of changes in net assets available for benefits.

**(c) Contributions receivable**

Contributions from the members and employer are accounted for in the period in which they fall due.

**(d) Transfers**

Transfers are recognised in the period in which members join from other schemes or leave for other schemes.

**(e) Benefits payable and other payables**

Benefits payable to seceding members are recognised as liabilities in the period in which they fall due
Other payables are classified as current liabilities if payment is due within one year or less.

**(f) Income from investments**

(i) Interest income is recognised for all interest bearing instruments using the effective yield method. Interest income includes coupons earned on fixed income investments and accrued discount and premium on treasury bills and other discounted instruments.

(ii) Dividends are recognised as income in the period in which the right to receive payment is established.

**Notes (continued)**

**1 Summary of significant accounting policies (continued)**

**(g) Financial assets**

The Scheme classifies its financial assets in the following categories: financial assets at fair value through statement of changes in net assets available for benefits and receivables.

All purchases and sales of financial assets at fair value through statement of changes in net assets available for benefits are recognised on the trade date, which is the date the Scheme commits to purchase or sell the asset.

Financial assets carried at fair value through statement of changes in net assets available for benefits are initially recognised at fair value, and transaction costs are expensed. These financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Scheme has transferred substantially all risks and rewards of ownership.

Gains and losses arising from of the financial assets through statement of changes in net assets available for benefits are recognised in the statement of changes in net assets available for benefits.

The fair values of quoted investments are based on current market prices. If the market for an investment is not active (and for unlisted securities), the trustees establish fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis refined to reflect the issuer's specific circumstances.

Receivables are carried at amortised cost using the effective interest rate method.

**(h) Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments maturing within 3 months from the year end i.e. treasury and other eligible bills.

**(j) Tax status of the Scheme**

Kenya Ports Authority Retirement Benefits Scheme 2012 has been approved by the Kenya Revenue Authority and is exempt from income tax on its investment income up to the statutory limit.

The scheme receives contributions in excess of the limits set out in the Income Tax Act. A tax charge at 30% is recorded in respect of the proportionate investment income earned on these contributions.

**Notes (continued)**

## 2 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In particular, critical estimates are made by the Trustees in determining the fair value of investments that are not traded in an active market. The trustees establish fair value by using recent arm's length transactions. As at 31 December 2013, the scheme had no investments that are not traded in an active market.

## 3 Financial risk management objectives and policies

The Scheme's activities expose it to a variety of financial risks, market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance, but the Scheme does not hedge any risks.

Risk management is carried out by the investment manager under policies and guidelines approved by the trustees.

*Market risk*

(i) Foreign exchange risk

The scheme had no material exposure to foreign exchange risk as at 31 December 2013.

(ii) Interest rate risk

The Scheme's investments in fixed rate government securities, corporate bonds and bank deposits expose it to fair value interest rate risk. The investment managers advise the trustees on the appropriate balance of the portfolio between equity and fixed rate interest investments. The Scheme has no interest bearing liabilities.

At 31 December 2013, an increase/decrease in interest rates of 100 basis points with all other variables held constant would have resulted in a decrease/ increase in the 'increase in net assets available for benefits' of Shs 3,435,000 arising substantially from the change in market values of debt securities.

**Notes (continued)**

**Summary of significant accounting policies (continued)**

**3 Financial risk management objectives and policies (continued)**

*Market risk* (continued)

(iii) Price risk

The Scheme is exposed to equity price risk in respect of its investments in quoted shares. The exposure to price risk is managed primarily by setting limits on the percentage of net assets available for benefits that may be invested in equity and by ensuring sufficient diversity of the investment portfolio.

At 31 December 2013, if the prices of all equity investments had increased/decreased by 10% with all other variables held constant, the 'increase in net assets available for benefits' for the year would have been Shs 18,786,000 higher/lower.

*Credit risk*

Credit risk arises from investments other than equity investments, contributions due, other receivables and cash and cash equivalents. The Scheme does not have any significant concentrations of credit risk. The investment manager assesses the credit quality of each investment, taking into account its age and liability profile, past experience and other factors.

No collateral is held for any of the above assets. None of the financial assets are either past due or impaired.

*Liquidity risk*

Prudent liquidity risk management includes maintaining sufficient cash balances to cover anticipated benefit payments. The trustees agree with the investment manager on the amount to be invested in assets that can be easily liquidated.

All financial liabilities at 31 December 2013 were payable within 90 days.

**Notes (continued)**

**Summary of significant accounting policies (continued)**

### 3 Financial risk management objectives and policies (continued)

*Fair value estimation*

The carrying amounts of all financial assets and liabilities at the reporting date approximate their fair values. The following table presents the Scheme's assets that are measured at fair value at 31 December 2013:

| | Level 1<br>Shs '000 | Level 2<br>Shs '000 | Level 3<br>Shs '000 | Total<br>Shs '000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Quoted shares | 187,858 | - | - | 187,858 |
| Government securities | | 322,827 | | 322,827 |
| Corporate bonds and commercial papers | - | 20,641 | - | 20,641 |
| | 187,858 | 343,468 | - | 531,326 |

The different level of fair value measurement hierarchy is described as follows:

- Quoted prices (unadjusted) in active markets for identical assets (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset that are not based on observable market data (that is, unobservable data) (level 3)

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Scheme is the current market price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques such as discounted cash flow analysis. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

*Capital risk management*

The capital of the Scheme is represented by the net assets available for benefits. The Scheme's objective when managing capital is to safeguard the Scheme's ability to continue as a going concern in order to provide benefits for members and maintain a strong capital base to support the development of the investment activities of the Scheme.

In order to maintain or adjust the capital structure, the Scheme's policy is to monitor the level of monthly subscriptions and redemptions relative to the assets it expects to be able to liquidate.

The Trustees monitor capital on the basis of the value of net assets attributable to members. To achieve optimal return from the Schemes' assets, the Trustee has formulated investment policies which set benchmarks upon which the investment manager is monitored.

**Notes (continued)**

## 4 Contributions

| | 2013<br>Shs' 000 |
|---|---|
| Employee | 251,483 |
| Employer | 502,946 |
| | 754,429 |

## 5 Benefits paid/payable

| | |
|---|---|
| Withdrawal benefits | 3,520 |

## 6 Investment income

| | |
|---|---|
| Dividend receivable | 989 |
| Interest and discount receivable | 14,404 |
| Other miscellaneous income | 347 |
| | 15,740 |

## 7 Financial assets at fair value through profit and loss

| Year ended 31 December 2013 | Value at 01/01/2013 | Purchases at cost | Sales proceeds maturity | Gain/loss on disposal | Change in fair value | Value at 31/12/2013 |
|---|---|---|---|---|---|---|
| | Shs' 000 | Shs' 000 | Shs' 000 | Shs' 000 | Shs' 000 | Shs' 000 |
| Quoted shares | - | 187,130 | - | - | 728 | 187,858 |
| Government Securities | - | 337,086 | (23,601) | 839 | 8,503 | 322,827 |
| Corporate bonds and Commercial paper | - | 30,863 | (11,000) | 281 | 498 | 20,642 |
| | | 555,079 | (34,601) | 1,120 | 9,729 | 531,327 |

**Notes (continued)**

## 7 Financial assets at fair value through profit and loss (continued)

The Scheme does not hold any single investment exceeding 5% of the net assets available for benefits except for:

| Investments | 2013 % |
|---|---|
| Government securities | |
| - Kenya Treasury Bonds | 42 |
| Quoted shares | 24 |
| Fixed deposits | 21 |

The following table summarises the weighted average effective interest rates at the year end on the main interest bearing investments:

| | 2013 % |
|---|---|
| Government securities | |
| - Kenya treasury bonds | 2 |
| - Corporate bonds and commercial paper | 1 |
| Fixed and call deposits | 4 |

## 8 Investment management expenses

| | 2013 Shs' 000 |
|---|---|
| Investment manager expense | 1,452 |
| Custodian expense | 589 |
| | 2,041 |

## 9 Administrative expenses

| | |
|---|---|
| Trustee expenses | 687 |
| Miscellaneous expenses | 137 |
| RBA levy | 1,397 |
| Audit Fees | 464 |
| | 2,685 |

**Notes (continued)**

### 10 Other receivables

| | 2013 Shs'000 |
|---|---|
| Dividend receivable | 235 |
| Other receivables | 1,215 |
| Due no later than one year | 1,450 |

### 11 Other payables and accrued expenses

| | |
|---|---|
| RBA Levy | 1,397 |
| Audit fees | 464 |
| Other payables | 957 |
| Due to Sponsor ( note 14) | 901 |
| | 3,719 |

### 12 Cash and cash equivalents

| | |
|---|---|
| Cash at bank | 84,686 |
| Fixed and time deposits | 162,548 |
| | 247,234 |

### 13 Tax status of the Scheme

Kenya Ports Authority Retirement Benefits Scheme 2012 has been approved by the Kenya Revenue Authority and is exempt from income tax on its investment income up to the statutory limit.

The scheme receives contributions in excess of the limits set out in the Income Tax Act. A tax charge at 30% is recorded in respect of the proportionate investment income earned on these contributions.

The income tax charge for the year is:

| | 2013 Shs'000 |
|---|---|
| Income tax charge | 511 |

**Notes (continued)**

**14 Related party transactions**

Related parties comprise the trustees, the administrator, the sponsor (Kenya Ports Authority) and companies which are related to these parties through common shareholdings or common directorships or through common control.

Apart from contributions receivable from the sponsor, there were no other related party transactions in the year.

The following outstanding related party balances existed as the end of the year:

| | **2013** |
|---|---|
| | **Shs'000** |
| **Due to sponsor** | |
| Excess contributions received from the sponsor | 901 |

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