PKF 2012/1

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KENYA PORTS AUTHORITY PENSION SCHEME
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

PKF 2012/2

TABLE OF CONTENTS **PAGE**

PKF 2012/3

SCHEME INFORMATION

TRUSTEES

CUSTODIAN TRUSTEE

Kenya Commercial Bank Nominees Limited
c/o Kenya Commercial Bank Limited
P. O. Box 30664 - 00100
Nairobi

CUSTODIANS

CFC Stanbic Custody Division
P. O. Box 30550 - 00100
Nairobi

EMPLOYER/SPONSOR

Kenya Ports Authority
P. O. Box 95009 - 80104
Mombasa

ADMINISTRATOR

Mr. M. M. Amahwa
Kenya Ports Authority
Pension Office
Old Cannon Towers, 7th Floor
Moi Avenue
P. O. Box 1019 - 80100
Mombasa

SECRETARY

Ms. Muthoni Gatere
Kenya Ports Authority
P. O. Box 95009 - 80104
Mombasa

ACTUARY

Alexander Forbes Financial Services (East Africa) Limited
P. O. Box 52439 - 00200
Nairobi

FUND MANAGERS

1. Old Mutual Asset Managers (E. A.) Limited
   P. O. Box 11589 - 00400
   Nairobi

2. Genesis Kenya Investment Management Limited
   P. O. Box 79217 - 00200
   Nairobi

3. PineBridge Investments East Africa Limited
   P. O. Box 67262 - 00200
   Nairobi

PKF 2012/4

SCHEME INFORMATION (CONTINUED)

INDEPENDENT AUDITOR

PKF Kenya
Certified Public Accountants
P. O. Box 90553 - 80100
Mombasa

PROPERTY MANAGEMENT AGENTS

1. N. W. Realite Limited
   P. O. Box 2211 - 00202
   Nairobi

2. Lustman & Company (1990) Limited
   P. O. Box 46849 - 00100
   Nairobi

4. Kiragu & Mwangi Ltd
   P. O. Box 10169 - 00100
   Nairobi

5. Gimco Ltd
   P. O. Box 61551 - 00200
   Nairobi

LAWYERS

1. Muciimi Mbaka and Company
   P. O. Box 15541 - 00100
   Nairobi

2. COOTOW and Associates
   P. O. Box 16858 - 80100
   Mombasa

3. Kaplan and Stratton Advocates
   P. O. Box 40111 - 00100
   Nairobi

4. Nyiha, Mukoma and Company Advocates
   P. O. Box 47122 - 00100
   Nairobi

BANKERS

1. Citibank N. A.
   P. O. Box 83615 - 80100
   Mombasa

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

3. National Bank of Kenya Limited
   P. O. Box 90363 - 80100
   Mombasa

4. Kenya Commercial Bank Limited
   P. O. Box 90254 - 80100
   Mombasa

REGISTERED OFFICE

Kenya Ports Authority
Pension Office
Old Cannon Towers, 7th Floor
Moi Avenue
P. O. Box 1019 - 80100
Mombasa

PKF 2012/5

REPORT OF THE TRUSTEES

The trustees present their report together with the audited financial statements for the year ended 31 December 2012.

ESTABLISHMENT, NATURE, AND STATUS OF THE SCHEME

The scheme was established, and is governed by a trust deed with effect from 1 January 1998. It is a defined benefit scheme and provides, under the rules of the scheme, retirements benefits for the staff of Kenya Ports Authority. It is an exempt approved scheme under the Income Tax Act and is registered with the Retirement Benefits Authority. Employees contribute to the fund at the rate of 7.5% of their respective pensionable salaries. The employer contributes at rates based on periodic advice of the actuary. The employer's current contribution rate is 42% of employees' pensionable salaries.

SCHEME MEMBERSHIP	2012 Number	2011 Number
Total Members		
Contributing members	4,683	4,716
Pensioners	4,186	4,170
Pension beneficiaries	709	908
	9,578	9,794
Contributing members		
At start of year	4,716	3,993
Add: Joiners	31	803
Less: Retired with pension	(16)	(20)
Died in service	(11)	(20)
Other secessionists	(37)	(40)
At end of year	4,683	4,716
Pensioners and pension beneficiaries		
At start of year	5,078	5,759
Add: Contributing members who retired	16	20
Widows, widowers and dependants pension becoming payable	203	184
Less: Ceased pensions after five year - widows and widowers	(402)	(885)
At end of year	4,895	5,078

SCHEME MANAGEMENT

The trustees, with the advice of experts continue to liaise with the sponsor in a process of restructuring the scheme with a view to making it operate more independently from the employer, in line with the Retirement Benefits Act.

PKF 2012/6

REPORT OF THE TRUSTEES (CONTINUED)

FINANCIAL REVIEW	**2012**	**2011**
	Shs '000	**Shs '000**
Net assets		
At start of year	12,241,508	11,626,887
Increase in net assets during the year	3,513,759	614,621
At end of year	15,755,267	12,241,508

INVESTMENT OF FUNDS

Under the terms of their appointment, Genesis Kenya Investment Management Limited, Old Mutual Asset Management (E. A.) Limited and PineBridge Investments East Africa Limited are responsible for the investment of funds. The overall responsibility for investment and performance of funds lies with the trustees.

ACTUARIAL POSITION

The last actuarial valuation was carried out as at 31 December 2011 in August 2012 by Alexander Forbes Financial Services (East Africa) Limited, an independent firm of actuaries, using the projected unit credit method. According to the valuation at that date, the actuarial present value of promised benefits was as follows:

	As at 31 December	
	2011	**2010**
	Shs billion	**Shs billion**
Vested benefits	6.266	6.387
Non vested benefits	9.863	9.341
Total	16.129	15.728

The fair value of the net assets available for benefits was Shs 12.241 billion (2010: Shs 11.627 billion) resulting in a deficit of Shs 3.888 billion (2010: Shs 4.101 billion).

The sponsor commissions an actuarial valuation on an annual basis as agreed with the Retirement Benefits Authority (RBA) although the RBA requires an acturial valuation at least once in every three years.

REMEDIAL PLAN

A remedial plan to reduce the actuarial deficit was agreed upon between the trustees, the employer and the Retirement Benefits Authority. This plan has been implemented and was expected to bring the scheme to financial balance by the year 2012. A new remedial plan is being prepared in 2013.

PKF 2012/7

REPORT OF THE TRUSTEES (CONTINUED)

REMEDIAL PLAN (continued)

The specific remedial actions that were agreed upon were as follows:

i) The definition of final pensionable salary to be amended so as to average the salary over three years preceeding retirement (already implemented).

ii) Freezing the amount of housing allowance that is pensionable to the levels as at 30 June 2003 (already implemented).

iii) The sponsoring employer has agreed to transfer assets or cash amounting to approximately Shs 1.2 billion within a period of 12 months from 30 June 2003 subject to approval by the Ministry of Finance. Properties valued at Shs 717 million are pending to be transferred to the scheme by the sponsor.

iv) The sponsoring employer has also accepted to make additional cash injections or assets transfers amounting to approximately Shs 600 million per year. This started in 2006 with cash injections made of Shs 850 million. Shs 600 million cash was injected in 2007, Shs 750 million cash was injected in 2008, Shs 704 million in 2009, Shs 650 million in 2010, Shs 550 million was injected in 2011 and Shs 650 million was injected in 2012.

A new remedial plan is being prepared in 2013.

TRUSTEES

The trustees who held office to the date of this report are shown on page 1.

TAXATION

The scheme's investment income is exempt from income tax.

COMPLIANCE

The scheme is registered with the Retirement Benefits Authority. The scheme has complied with all regulatory provisions under the Retirement Benefits Act and Regulations thereof regarding Benefits Schemes.

INDEPENDENT AUDITOR

The scheme's auditor, PKF Kenya has indicated its willingness to continue in office.

BY ORDER OF THE BOARD OF TRUSTEES

CHAIRMAN

18/10 **2013**

MOMBASA

PKF 2012/8

STATEMENT OF TRUSTEES' RESPONSIBILITIES

The Retirement Benefits (Occupational Retirement Benefit Schemes) Regulations, 2000, made under Retirement Benefits Act, 1997, require the trustees to prepare financial statements in a prescribed form for each financial year. They also require the trustees to ensure that the scheme 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 scheme.

The trustees accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the Retirement Benefits (Occupational Retirement Benefit Schemes) Regulations, 2000. The trustees are of the opinion that the financial statements give a true and fair view of the financial transactions of the scheme and of the disposition of its assets and liabilities, other than liabilities to pay pensions and benefits falling due after the end of the year. The trustees further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as for safeguarding the assets of the scheme and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The trustees are aware that following the actuarial valuation as at 31 December 2011, the Pension Scheme has an actuarial deficit at that date of Shs 3.888 billion. A remedial plan has been agreed upon between the employer, the trustees and the Retirement Benefits Authority which is being implemented. The trustees therefore, with the assurance of the employer, are of the view that the Pension Scheme will remain a going concern for at least the next twelve months from the date of this statement.

Approved by the board of trustees on 18/10 2013 and signed on its behalf by:

CHAIRMAN

TRUSTEE

PKF KENYA
Certified Public Accountants

PKF 2012/9

PKF
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REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF KENYA PORTS AUTHORITY PENSION SCHEME

Report on the financial statements

We have audited the accompanying financial statements of Kenya Ports Authority Pension Scheme set out on pages 9 to 28 which comprise the statement of net assets available for benefits as at 31 December 2012 and the statement of changes in net assets available for benefits, statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

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 requirements of the Retirement Benefits Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these 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 the audit to obtain reasonable assurance whether 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 judgment, 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 audit opinion.

Limitation of scope

We were not able to verify the accuracy and completeness of contributions received from the sponsor and contributing members as the sponsor did not provide us access to its payroll. We were unable to perform alternative procedures to verify contributions receivable. We have however received a confirmation from the sponsor of the contributions made to the scheme in 2012.

Included in trade and other payables is a suspense account amounting to Shs 36,340,763 which could not be verified by us.

Opinion

In our opinion, except for the effect of any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the matters highlighted in the preceding paragraphs, proper books of account have been kept and the financial statements which are in agreement therewith give a true and fair view of the financial transactions of the scheme during the year ended 31 December 2012 and of the disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits falling due after the end of the year, and are in compliance with International Financial Reporting Standards and the Retirement Benefits Act 1997.

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PKF 2012/10

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REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF KENYA PORTS AUTHORITY PENSION SCHEME (CONTINUED)

Emphasis of matters
We draw your attention to:

1. Note 13 in the notes to the financial statements which indicates that the trustees are in the process of compiling listings to support the rent receivable and reconciling differences with amounts shown in the property managers' reports.

2. Note 20 in the notes to the financial statements which indicates that there was an actuarial deficit of Shs 3.888 billion as at 31 December 2011 (2010: Shs 4.101 billion) and that a remedial plan to reduce the actuarial deficit was agreed upon between the trustees, the employer and the Retirement Benefits Authority which is being implemented and is expected to bring the scheme to financial balance.

PKF Kenya
Certified Public Accountants
Mombasa

Piyush Shah
CPA Piyush Ramesh Devchand Shah
Practicing Certificate No.1521

22-10-**2013**

664/2013

PKF 2012/11

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

	Notes	2012 Shs '000	2011 Shs '000
Income from dealings with members			
Contributions received in the year	1	1,243,154	1,141,149
Additional contributions received from the sponsor to reduce actuarial deficit	2	650,000	1,117,000
		1,893,154	2,258,149
Outgoings from dealings with members			
Benefits payable and paid	3	(859,398)	(903,165)
Net addition from dealings with members		1,033,756	1,354,984
Returns on investments			
Investment income	4	1,124,656	728,916
(Loss)/profit on disposal of financial assets	5	(11,469)	149,685
Profit on disposal of investment property	6	-	1,000
Changes in fair value of financial assets	11	1,458,769	(1,555,012)
Investment management expenses	7	(52,986)	(36,766)
Net return on investments		2,518,970	(712,177)
Administrative expenses	8	(38,967)	(28,186)
Increase in net assets for the year		3,513,759	614,621
Net assets available for benefits			
At start of year		12,241,508	11,626,887
Increase in net assets for the year (see above)		3,513,759	614,621
At end of year		15,755,267	12,241,508

The notes on pages 12 - 28 form an integral part of these financial statements.

Report of the independent auditor - pages 7 - 8.

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

	Notes	As at 31 December 2012 Shs '000	2011 Shs '000
Assets			
Investment properties	9	3,876,591	3,876,591
Motor vehicles and equipment	10	415	787
Financial assets	11	10,365,901	7,163,314
Contributions receivable	12	101,408	97,198
Receivables and accrued income	13	117,603	56,840
Cash and cash equivalents	14	1,516,909	1,225,992
Total assets		15,978,827	12,420,722
Less: liabilities			
Payables and accrued expenses	15	223,560	179,214
Net assets available for benefits		15,755,267	12,241,508

The financial statements on pages 9 to 28 were approved and authorised for issue by the Board of Trustees on 18/10/2013 2013 and were signed on its behalf by:

CHAIRMAN

TRUSTEE

The notes on pages 12 - 28 form an integral part of these financial statements.

Report of the independent auditor - pages 7 - 8.

PKF 2012/12

STATEMENT OF CASH FLOWS

	Notes	2012 Shs '000	2011 Shs '000
Operating activities			
Reconciliation of increase in net assets to cash from operating activities:			
Increase in net assets (excluding fair value changes)		2,054,990	2,169,633
Adjustments for:			
Assets transferred from the sponsor	9	-	(567,000)
Depreciation of motor vehicles and equipment	10	587	649
Loss/(profit) on disposal of financial assets	5	11,469	(149,685)
Profit on disposal of investment property	6	-	(1,000)
		2,067,046	1,452,597
Changes in:			
Contributions receivable		(4,210)	(76,873)
Receivables and accrued income		(60,763)	(4,241)
Payables and accrued expenses		44,346	34,640
Net cash from operating activities		2,046,419	1,406,123
Investing activities			
Cash paid for purchase of computer and equipment	10	(215)	(228)
Proceeds from disposal of investment property	6	-	25,000
Purchase of financial assets	11	(3,591,347)	(2,959,232)
Proceeds from sale/maturity of financial assets		1,836,060	1,733,291
Net cash used in investing activities		(1,755,502)	(1,201,169)
Increase in cash and cash equivalents		290,917	204,954
Movement in cash and cash equivalents			
At start of year		1,225,992	1,021,038
Increase		290,917	204,954
At end of year	14	1,516,909	1,225,992

The notes on pages 12 - 28 form an integral part of these financial statements.

Report of the independent auditor - pages 7 - 8.

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 the years presented unless otherwise stated.

a) **Basis of preparation**

The financial statements have been prepared in accordance with and comply with the International Financial Reporting Standards, the Retirement Benefits Act,1997 as amended, and with the Retirement Benefits (Occupational Retirement Benefit 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 pensions and benefits, which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the statement by the actuary and these financial statements should be read in conjunction therewith. The last actuarial valuation was made as at 31 December 2010 in August 2011.

(i) New and amended standards adopted by the scheme

The scheme has not applied the amendments to IFRS 7 Disclosures – Transfers of financial assets in the current year. The amendments improves the disclosure requirements for transactions involving the transfer of financial assets.

(ii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not adopted in advance of the effective date

International Financial Reporting Standard 12 (IFRS 12) on 'Disclosures of Interests in Other Entities' enhances the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. Adoption is mandatory from 1 January 2013 although early adoption is permissible.

International Financial Reporting Standard 13 (IFRS 13) on 'Fair Value Measurement' - The standard aims to improve consistency and reduce complexity by providing a more precise definition and a single source of measurement and disclosure requirements. Adoption is mandatory from 1 January 2013 although early adoption is permissible.

The scheme has not assessed the potential impact of IFRS 13 on its financial statements.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into two principal measurement categories: those measured as at fair value and those measured at amortised cost. The group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2013.

Amendments to IFRS 7 and IAS 32: The amendments to IAS 32 clarify existing application issues relating to the offsest of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforeceable right of set-off and simultaneous realization and settlement. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforeceable master netting agreement or similar arrangement.

PKF 2012/13

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) **Motor vehicles and equipment (continued)**

Depreciation is calculated on the straight line basis to write down the cost of each asset, to its residual value over its estimated useful life using the following annual rates:

Motor vehicles	- over 4 years
Equipment	- over 5 years

The residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of motor vehicles and equipment are determined by reference to their carrying amount and are taken into account in determing net return on investments.

h) **Taxation**

The scheme is exempted from income tax.

i) **Investment property**

Investment property is carried at fair value representing open market value. Fair value is determined every three years by external independent valuers as required by the Retirement Benefits Act. Investment properties are not subject to depreciation. Changes in the carrying amount between reporting dates are processed through the statement of changes in net assets.

On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to the statement of changes in net assets.

Repairs and maintenance expenses in respect of investment property are charged to income in the period in which the expense is incurred.

j) **Foreign currencies**

Transactions in foreign currencies during the year are converted into Kenya Shillings (the functional currency), at rates ruling at the transaction dates. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the statement of changes in net assets. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in the statement of changes in net assets.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) **Financial instruments**

Financial assets and financial liabilities are recognised when the scheme becomes a party to the contractual provisions of the instrument. Management determines all classification of financial assets at initial recognition.

- Financial assets

The scheme's financial assets which include quoted shares, government securities and corporate bonds and commercial paper and loans and receivables are carried at fair value and fall into the following categories:

Held-to-maturity: financial assets with fixed or determinable payments and fixed maturity where the management have the positive intent and ability to hold to maturity. Such assets are carried at amortised cost using the effective interest rate method. Changes in the carrying amount are recognised in the statement of changes in net assets available for benefits.

Available-for-sale: financial assets that are held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rate. Such assets are carried at fair value where fair value gains or losses are recognised directly in statement of changes in net assets available for benefits.

Interest on available-for-sale securities is calculated using the effective interest method and is recognised in statement of changes in net assets available for benefits as part of investment income. Dividends on available-for-sale equity instruments are also recognised in statement of changes in net assets available for benefits as part of investment income when the scheme's right to receive payments is established.

Loans and receivables: financial assets that are created by the scheme by providing money directly to a debtor are carried at amortised cost using the effective interest rate method. Changes in the carrying amount are recognised in the statement of changes in net assets available for benefit.

Purchases and sales of financial assets are recognised on the trade date i.e. the date on which the scheme's fund managers commit to purchase or sell the asset.

Financial assets carried at fair value through statement of changes in net assets available for benefits are intially recognised at fair value and transaction costs are expensed in the statement of changes in net assets.

Financial assets are derecognised when the rights to receive cash and cash flows from the investments have expired or have been transferred and the scheme has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value.

Trustees classify investments as follows:

Quoted shares, government securities, corporate bonds and commercial paper are classified as available-for-sale financial instruments. The fair values of quoted shares are based on current bid prices at the reporting date.

Cash with financial institutions are classified as loans and receivables and are carried at amortised cost. Receivables are classified as loans and receivables and are carried at amoritised cost.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the assets carrying amount and the present values of expected future cash flows, discounted at the financial instrument's effective interest rate. Impairment losses are taken into account for determining increase/decrease in net assets for the year.

PKF 2012/14

NOTES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) **Financial instruments (continued)**

- Financial assets (continued)

Gains and losses on disposal of investments whose changes in fair value were initially recognised in the statement of changes in net assets available for benefits are determined by reference to their carrying amount and are taken into account in determining increase/decrease in net assets. On disposal of investments whose changes in fair value were initially recognised in investment revaluation reserve, the gains/losses are recognised in the reserve, where the fair values were initially recognised.

- Financial liabilities

The scheme's financial liabilities which includes payables fall into the following category:

Financial liabilities measured at amortised cost: These include payables. These are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method.

Payables are initially recognised at fair value and are subsequently stated at amortised cost.

All financial liabilities are classified as current liabilities unless the scheme has an unconditional right to defer settlement of the liability for atleast 12 months after the date of the statement of financial position

Financial liabilities are derecognised when, and only when, the scheme's obligations are discharged, cancelled or expired.

Benefits payable and other liabilities are classified as financial liabilities. Benefits payable to leaving members are taken into account as they fall due for payment.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of net assets available for benefits when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

l) **Actuarial deficit**

This represents the difference between the fair value of the net assets available for benefits and the actuarial present value of promised benefits. The actuarial deficit is disclosed as a note in the financial statements.

m) **Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, deposits held at call with banks and fixed and time deposits maturing within 90 days.

NOTES (CONTINUED)

1. Contributions received

	2012 Shs '000	2011 Shs '000
Employer's contributions at 42%	1,034,361	957,831
Employees' contributions at 7.5%	208,793	183,318
	1,243,154	1,141,149

2. Additional contributions received from the sponsor to reduce actuarial deficit

Analysed as follows:		
Contributions in cash	650,000	550,000
Transfer of investment properties (Note 9)	-	567,000
	650,000	1,117,000

In line with the remedial plan agreed between the scheme, the employer and the Retirement Benefits Authority, the employer has made additional contributions during the year.

3. Benefits payable and paid

	2012 Shs '000	2011 Shs '000
Monthly pensions	787,798	825,001
Lump sum	40,214	59,277
Death benefits	31,386	18,887
	859,398	903,165

4. Investment income

Gross rental income	300,498	263,827
Less: direct rental expenses	(157,201)	(139,975)
	143,297	123,852
Dividends receivable on quoted shares (Kenya and offshore)	124,428	96,080
Interest and discounts receivable on Kenya Government securities, commercial paper and corporate bonds, and loans and receivables	853,292	507,131
Other income	3,639	1,853
	1,124,656	728,916

5. (Loss)/profit on disposal of financial assets

Sale proceeds on disposal of financial assets	280,093	649,754
Fair value of financial assets disposed	(291,562)	(500,069)
(Loss)/profit on disposal of financial assets	(11,469)	149,685

PKF 2012/15

NOTES (CONTINUED)

6. **Profit on disposal of investment property**	**2012 Shs '000**	**2011 Shs '000**
Sale proceeds on disposal of investment property	-	25,000
Fair value of investment property disposed (Note 9)	-	(24,000)
Profit on disposal of investment property	-	1,000

7. Investment management expenses

Fund managers' fees	42,657	30,880
Custodian's fees	10,329	5,886
	52,986	36,766

8. Administrative expenses

Trustees' fees and meeting expenses	20,720	14,478
Administration and processing:		
- Postage	917	747
- Pensioners' bank cheques, charges and commissions	311	145
Audit fees:		
- current year	2,000	2,037
- underprovision in prior year	14	-
Legal and professional fees	5,181	3,356
Actuarial fees	945	755
RBA levy	5,000	5,000
Depreciation on motor vehicle and equipment	587	649
Advertising	1,083	766
Bad debts written off	1,654	-
Motor vehicle expenses	555	253
	38,967	28,186

In accordance with the Trust Deed, some administrative expenses including pension staff remuneration, telephones, stationery and other office facilities are provided for by the sponsor as below:

	2012 Shs '000	**2011 Shs '000**
Pension staff remuneration	29,768	32,344
Office administration expenses	7,892	2,232
	37,660	34,576

9. Investment properties

	2012 Shs '000	2011 Shs '000
At start of year	3,876,591	3,333,591
Transfer from the sponsor (Note 2)	-	567,000
Disposals (Note 6)	-	(24,000)
At end of year	3,876,591	3,876,591

Some of the Investment properties were professionally valued in February 2008 by Tysons Limited and Regent Valuers International (K) Ltd independent registered valuers. The remaining properties were professionally valued in March 2008 by Kiragu & Mwangi Limited independent registered valuers. The properties were valued on the basis of open market value. The book values of the properties were adjusted to the revaluations and the resultant surplus was credited to the statement of changes in net assets available for benefits.

In accordance with the requirements of the Retirement Benefits Act, valuations of investment properties are to be carried out every 3 years. The trustees are aware that the next valuation was due in 2011 and have undertaken to carry out a valuation in 2013 to ensure that it complies with the Retirements Benefit Act.

Titles to the properties transferred from the sponsor are registered in the scheme's name. All other documents of title are in the name of Kenya Commercial Bank Nominees Limited as custodian trustee of Kenya Cargo Handling Services Limited Staff Pension Scheme and are in the process of being transferred to Kenya Ports Authority Pension Scheme.

Amounts included under the statement of changes in net amounts available for benefits which comprise gross rental income less direct rental expenses in respect of the investment properties are disclosed in Note 4.

Properties valued at Shs 717 million are pending to be transferred to the scheme by the sponsor.

Included in investment properties are certain properties that are being held for sale and one property the ownership of which is contested.

The scheme leases out all its investment property under operating leases.

Information in respect of future minimum rentals receivable under non-cancellable operating leases has not been disclosed as this information has not yet been compiled by the trustees.

PKF 2012/16

NOTES (CONTINUED)

10. **Motor vehicles and equipment**

Year ended 31 December 2012

	Computer Shs '000	Equipment Shs '000	Motor vehicles Shs '000	Total Shs '000
Cost				
At start of year	593	625	3,716	4,934
Additions	-	215	-	215
At end of year	593	840	3,716	5,149
Depreciation				
At start of year	303	595	3,249	4,147
Charge for the year	67	53	467	587
At end of year	370	648	3,716	4,734
Net book value	223	192	-	415

Year ended 31 December 2011

	Computer and equipment Shs '000	Fax machine Shs '000	Motor vehicles Shs '000	Total Shs '000
Cost				
At start of year	365	625	3,716	4,706
Additions	228	-	-	228
At end of year	593	625	3,716	4,934
Depreciation				
At start of year	237	479	2,782	3,498
Charge for the year	66	116	467	649
At end of year	303	595	3,249	4,147
Net book value	290	30	467	787

In accordance with the Retirement Benefits Act, assets are to be depreciated over 2 years on a straight line basis. The trustees have adopted a depreciation policy to depreciate its assets over 5 and 4 years straight line as this is more reasonable. If the assets were depreciated in accordance with the requirements of the Retirement Benefits Act, the depreciation charge would decrease by Shs ('000) 287 (2011: decrease by Shs ('000) 458) and increasing the asset value by the same amount. In the opinion of the trustees the difference in depreciation rates is not material.

11. **Financial assets**

Year ended 31 December 2012

	Value at start of year Shs '000	Purchases at cost Shs '000	Disposals/ maturity Shs '000	Change in fair value Shs '000	Value at end of year Shs '000
Shares					
- quoted shares (Kenya)	1,967,914	563,693	(167,077)	917,056	3,281,586
- quoted shares (offshore)	252,942	119,031	(124,485)	36,655	284,143
Kenya government securities	4,080,583	2,678,164	(1,477,830)	468,956	5,749,873
Commercial paper and corporate bonds	861,875	230,459	(78,137)	36,102	1,050,299
	7,163,314	3,591,347	(1,847,529)	1,458,769	10,365,901

Year ended 31 December 2011

	Value at start of year Shs '000	Purchases at cost Shs '000	Disposals/ maturity Shs '000	Change in fair value Shs '000	Value at end of year Shs '000
Shares					
- quoted shares (Kenya)	2,394,365	470,013	(147,641)	(748,823)	1,967,914
- quoted shares (offshore)	517,106	216,518	(379,176)	(101,506)	252,942
Kenya government securities	3,494,559	2,201,129	(922,341)	(692,764)	4,080,583
Commercial paper and corporate bonds	936,670	71,572	(134,448)	(11,919)	861,875
	7,342,700	2,959,232	(1,583,606)	(1,555,012)	7,163,314

Fair value is determined by reference to quoted prices in active markets.

The carrying amounts of the scheme's financial assets are denominated in the following currencies:	2012 Shs '000	2011 Shs '000
US Dollar	272,156	240,981
Rwanda Franc	11,988	11,961
Kenya Shilling	10,081,757	6,910,372
	10,365,901	7,163,314

The following table analyses financial assets other than shares (which have no fixed maturity) into relevant maturity groupings based on the remaining period at 31 December 2012 to the contractual maturity date.

	Up to 1 year Shs '000	1 to 5 years Shs '000	Over 5 years Shs '000	Total Shs '000
Kenya government securities	1,400,978	1,970,824	2,378,071	5,749,873
Commercial paper and corporate bonds	19,819	869,888	160,592	1,050,299
	1,420,797	2,840,712	2,538,663	6,800,172

PKF2012/17

11. Financial assets (continued)

	2012 %	2011 %
The following table summarises the weighted average effective interest rates at the year end on the main interest bearing investments:		
Kenya government securities	5.25 - 21.96	5.00 - 23.00
Commercial paper and corporate bonds	7.25 - 18.00	8.00 - 16.00

The following table summarises the exposure to interest rate risks. Included in the table are the scheme's interest bearing investments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to 3 months Shs '000	3 - 12 months Shs '000	Over 1 year Shs '000	Total Shs '000
Kenya Government securities	527,789	873,189	4,348,895	5,749,873
Commercial paper and corporate bonds	19,819	-	1,030,480	1,050,299
	547,608	873,189	5,379,375	6,800,172

The scheme does not hold any single financial asset exceeding 5% of the net assets of the scheme except for:	2012 %	2011 %
Quoted shares (Kenya and offshore)	23	18
Kenya government securities	36	34

12. Contributions receivable

	2012 Shs '000	2011 Shs '000
Employer contribution receivable		
Outstanding for not more than 30 days	101,408	97,198

13. Receivables and accrued income

Rent receivable	39,524	65,623
Less: specific impairment	-	(28,540)
Less: general impairment	-	(2,266)
Net rent receivable	39,524	34,817
Other receivables	6,386	18,723
Deposits	3,300	3,300
Belle Vue project	68,393	-
	117,603	56,840

13. **Receivables and accrued income (continued)**

In the opinion of the trustees, the carrying amounts of receivables and accrued income approximate to their fair value.

The carrying amounts of scheme's other receivables and accrued income are denominated in Kenya Shillings.

The scheme's credit risk arises primarily from rent receivable. The trustees are of the opinion that the scheme's exposure is limited because the debt is widely held.

The trustees are in the process of compiling listings to support the rent receivable balance and reconciling differences with amounts shown in the property managers' reports. The trustees have written off certain specific bad debts from the property managers' reports and the specific provisions against these balances. The trustees have also deemed it prudent to maintain a general provision for bad debts. An age analysis of rent receivable past due but not yet impaired has not been disclosed as the trustees are still in the process of compiling this information.

The other classes of receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The scheme does not hold any collateral as security.

14. **Cash and cash equivalents**

	2012 Shs '000	2011 Shs '000
Cash at bank	154,795	134,667
Fixed and time deposits	1,362,114	1,091,325
	1,516,909	1,225,992

For the purposes of cash flow statement cash and cash equivalents comprise the amounts above.

The weighted average effective interest rate on fixed and time deposits at year-end was between 5% - 23% (2011: 10% - 23%).

The scheme's cash and bank balances are held with major Kenyan financial institutions and, insofar as the directors are able to measure any credit risk to these assets, it is deemed to be limited.

PKF 2012/18

15. **Payables and accrued expenses**

	2012 Shs '000	2011 Shs '000
Rent deposits	20,222	21,447
Death benefits payable	11,157	15,672
Accrued expenses	14,670	10,247
RBA levy	5,000	5,000
Nairobi project	87,951	74,181
Bombolulu project	48,220	50,532
Belle Vue project	-	2,135
Other payables	36,340	-
Total other payables and accrued expenses	223,560	179,214

In the opinion of the trustees, the carrying amounts of payables and accrued expenses approximate to their fair value.

The maturity analysis of other payables and accrued expenses is as follows:

Year ended 31 December 2012

	0 to 1 month Shs '000	1 to 3 months Shs '000	3 to 12 months Shs '000	Over 1 year Shs '000	Total Shs '000
Rent deposits	-	-	-	20,222	20,222
Death benefits payable	5,656	5,501	-	-	11,157
Accrued expenses	7,740	4,930	2,000	-	14,670
RBA levy	-	-	5,000	-	5,000
Nairobi Project	-	-	-	87,951	87,951
Bombolulu project	-	-	-	48,220	48,220
Other payables	-	-	36,340	-	36,340
	13,396	10,431	43,340	156,393	223,560

Year ended 31 December 2011

	0 to 1 month Shs '000	1 to 3 months Shs '000	3 to 12 months Shs '000	Over 1 year Shs '000	Total Shs '000
Rent deposits	-	-	-	21,447	21,447
Death benefits payable	2,384	6,531	6,757	-	15,672
Accrued expenses	801	7,427	2,019	-	10,247
RBA levy	-	-	5,000	-	5,000
Nairobi Project	-	-	74,181	-	74,181
Bombolulu project	-	-	50,532	-	50,532
Belle vue project	-	-	2,135	-	2,135
	3,185	13,958	140,624	21,447	179,214

16. **Related party transactions and balances**

Related parties comprise the trustees, the administrator and the sponsor.

The following transactions were carried out with related parties during the year:	2012 Shs '000	2011 Shs '000
- cash contributions received from the sponsor (for the year)	1,684,362	1,507,831
- contributions receivable from the sponsor (balance outstanding)	103,634	97,198
- investment properties transferred from the sponsor (during the year)	-	567,000
- rent charged to the sponsor (for the year)	3,000	13,908
- administration expenses paid by the sponsor	37,660	34,576
- trustees' sitting allowances	-	3,878

17. **Investments guidelines**

The Retirement Benefits Authority has issued guidelines stating the maximum amount of investment that the scheme can invest in a particular asset as a percentage of the aggregate market value of net assets of scheme. The table below shows the current investment in assets compared to the investment guidelines issued by the Retirement Benefits Authority.

Category of asset	2012 %	2011 %	Maximum investment as per RBA %
Cash and demand deposits	1	1	5
Fixed and time deposits	9	8	30
Commercial paper and corporate bonds	7	7	15
Kenya Government securities	36	34	70
Quoted shares - Kenya	21	16	70
Quoted shares - offshore	2	2	15
Immoveable properties	25	32	30

The scheme's investments portfolio complies with the Retirement Benefits Act.

18. **Tax status of the scheme**

Kenya Ports Authority Pension Scheme has been approved by the Kenya Revenue Authority and is exempt from income tax on its investment income.

DKF 2012/19

19. **Contingent liabilities**

Other than the liability to pay future pensions and other benefits, there were no contingent liabilities of the scheme at 31 December 2012, except as disclosed below:

The scheme is a defendant/plaintiff in various legal actions. Although there can be no absolute assurances, the trustees believe, based on information currently available, that the ultimate resolution of these legal proceedings is not likely to have a material adverse effect on the results of its operations, financial position or liquidity. The trustees estimate a contingent liability not exceeding Shs 31 million (2011: Shs 33 million) as at the reporting date.

20. **Actuarial position**

The last actuarial valuation was carried out as at 31 December 2011 in August 2012 by Alexander Forbes Financial Services (East Africa) Limited, an independent firm of actuaries, using the projected unit credit method. According to the valuation at that date, the actuarial present value of promised benefits was as follows:

	As at 31 December	
	2011	**2010**
	Shs billion	**Shs billion**
Vested benefits	6.266	6.387
Non vested benefits	9.863	9.341
Total	16.129	15.728

The fair value of the net assets available for benefits was Shs 12.241 billion (2010: Shs 11.627 billion) resulting in a deficit of Shs 3.888 billion (2010: Shs 4.101 billion).

The sponsor commissions an actuarial valuation on an annual basis. The Retirement Benefits Authority requires an actuarial valuation at least once in every three years.

A remedial plan to reduce the actuarial deficit was agreed upon between the trustees, the employer and the Retirement Benefits Authority. This plan is being implemented and is expected to bring the scheme to financial balance.

The specific remedial actions that were agreed upon were as follows:

i) The definition of final pensionable salary to be amended so as to average the salary over three years preceding retirement (already implemented).

ii) Freezing the amount of housing allowance that is pensionable to the levels as at 30 June 2003 (already implemented).

iii) The sponsoring employer has agreed to transfer assets or cash amounting to approximately Shs 1.2 billion within a period of 12 months from 30 June 2003 subject to approval by the Ministry of Finance. (Partly implemented - refer to notes 2 and 9 in the financial statements).

iv) The sponsoring employer has also accepted to make additional cash injections or assets transfers amounting to approximately Shs 600 million commencing in the year 2006.

Cash contributions of Shs 650 million (2011: Shs 550 million) and properties valued at Shs Nil (2011: Shs 567 million) were made and transferred to the scheme by the sponsor.

A new remedial plan is being prepared in place in 2013.

21. **Risk management objectives and policies**

Financial risk management

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 the scheme's financial performance.

Risk management is carried out by the fund managers appointed by the trustees. The trustees and fund managers identify, evaluate and hedge financial risks.

Market risk

Foreign exchange risk
A proportion of the scheme's financial assets are held in foreign currency. These comprise quoted shares held offshore as disclosed in Note 11.

Any fluctuation in the foreign exchange rate would have a direct impact on the carrying value of these financial assets.

Interest rate risk
A proportion of the scheme's financial assets which include Kenya Government securities, commercial papers and corporate bonds, and fixed and time deposits are interest earning assets. These are as disclosed in Note 11.

If the interest rates varied during the year with other variables held constant, this would have a direct impact on the interest income earned during the year.

Price risk

The scheme is exposed to equity securities price risk because of investments held by the scheme and classified on the statement of net assets available for benefits as 'Available-for-sale'.

To manage its price risk arising from investments in quoted equities, the fund managers diversify the portfolio. Diversification of the portfolio is done in accordance with the trustees and investment managers taking into account the investment guidelines set by the Retirement Benefits Authority.

Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures from receivables.

The exposure to and concentration of the risk has been disclosed in the relevant financial asset note.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities.

The scheme maintains adequate amounts of cash and cash equivalents to pay off liabilities (except for pension liabilities falling due after the balance sheet date) as they fall due. The actuarial position of the scheme which deals with the actuarial present value of promised benefits is disclosed in Note 20.

PKF 2012 | 20

22. **Fund management**

The scheme's objectives when managing fund are:

- to comply with The Retirement Benefit (Occupational Retirement Benefit Schemes) Regulations, 2000 made under Retirement Benefit Act, 1997.
- to safeguard the scheme's ability to continue as a going concern, so that it can continue to provide returns for members and benefits for other stakeholders

The Retirement Benefits Act requires the scheme's trustees to invest members' funds using prudent investment policies that will get the members market rates on their investments. The scheme's compliance with this requirement has been disclosed in Note 17.

The scheme sets the amount of the fund in proportion to risk. The scheme manages the fund structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. The fund comprises members' funds.

23. **Presentation currency**

The financial statements are presented in Kenya Shillings thousands (Shs '000 or Shs ('000)), except where indicated otherwise.

24. **General information**

The Kenya Ports Authority Pension Scheme was established by an original Trust Deed which became operational on 1 January 1998. The original Trust deed was amended effective from 1 July 2002. The scheme which is registered under the Income Tax (Retirement Benefits) Rules incorporates predecessor schemes, namely the East Africa Cargo Handling Services Limited Staff Pension Scheme and the Kenya Cargo Handling Services Limited Staff Pension Scheme in whose books of account, the assets and liabilities are maintained by the trustees. The trustees are in the process of effecting the necessary legal transfers of the assets and liabilities.

LISTING OF INVESTMENT PROPERTIES

PROPERTY	LOCATION	2012 Shs '000	2011 Shs '000
Cannon Towers	Mombasa	380,000	380,000
Motor Mart Building	Mombasa	60,000	60,000
Rex House	Mombasa	62,000	62,000
Tudor Flats	Mombasa	48,000	48,000
Ganjoni Flats	Mombasa	45,000	45,000
Mwembe Tayari Flats	Mombasa	25,000	25,000
Plot XXV/86	Mombasa	35,000	35,000
Plot XXV/93	Mombasa	25,000	25,000
Bandari Plaza	Nairobi	645,000	645,000
Nyaku House	Nairobi	220,000	220,000
Siwaka Estate	Nairobi	255,500	255,500
Hurlingham Court	Nairobi	140,000	140,000
South C Plots	Nairobi	78,500	78,500
Plot L. R. No. 209/12015	Nairobi	70,000	70,000
Runda Plot	Nairobi	70,000	70,000
Gudka Estate	Kisumu	300	300
Tudor	Mombasa	53,000	53,000
Kizingo	Mombasa	147,000	147,000
Bombolulu	Mombasa	31,400	31,400
Nyali	Mombasa	350,500	350,500
Mbaraki	Mombasa	189,200	189,200
Nairobi	Nairobi	274,191	274,191
Makande	Mombasa	105,000	105,000
Lotus Plot No Msa/62 & 63/XXVI	Mombasa	72,000	72,000
D. Kimathi Plot No Msa 185/XXVI	Mombasa	495,000	495,000
		3,876,591	3,876,591