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KENYA REVENUE AUTHORITY

STATEMENT OF MANAGEMENT RESPONSIBILITIES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2007

The Kenya Revenue Authority Act requires Management to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Authority and its operating results for that year. It also requires Management to ensure that the Authority keeps proper accounting records which disclose, with reasonable accuracy, the financial position of the Authority. Management is also responsible for safeguarding the assets of the Authority and maintenance of adequate system of internal financial control.

Management accepts the responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in accordance with International Financial Reporting Standards and the requirements of the Kenya Revenue Authority Act. Management is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Authority and of its operating results.

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

Dated the 28th August, 2008.

M. G. WAWERU,
Commissioner-General.

REPORT OF THE CONTROLLER AND AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF THE KENYA REVENUE AUTHORITY FOR THE YEAR ENDED 30TH JUNE, 2006

I have audited the financial statements of the Kenya Revenue Authority which comprise the balance sheet as at 30th June, 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended, together with the summary of significant accounting policies and other explanatory notes in accordance with the provisions of Section 8 of the Public Audit Act, 2003, and Section 18 of the Kenya Revenue Authority Act, Cap. 469. 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. The financial statements are in agreement with the books of account.

Respective Responsibilities of the Management for the Financial Statements

The Management of the Kenya Revenue Authority is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting standards and the provisions of the Kenya Revenue Authority Act. The 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; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Controller and Auditor-General

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement.

An audit involves the performing procedures to obtain audit evidence about 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 risks assessments, the auditor considers internal controls relevant to the Authority'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 Authority's internal controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made, as well as evaluating the overall presentation of the financial statements.

I believe the audit provides a reasonable basis for my opinion.

1. Property, Plant and Equipment

1.1 As noted in my prior year's report and as disclosed in Note 8(ii) to the financial statements, the Authority does not have title documents for some 12 pieces of leasehold land with carrying values of KShs. 72,185,000.00. Further, the ownership of the Times Tower Building, which is carried in the financial statements at a valuation figure of KShs 2,594,391,058.00, has still not been transferred to the Authority. I am therefore unable to confirm the Authority's ownership of these properties.

1.2 The Authority has not valued its properties since March, 1996. Consequently, it is not possible to confirm whether the carrying values as stated in the financial statements reflect the fair values of the properties as at the balance sheet date.

Opinion

In my opinion except for the effect on the financial statements of the matters referred to in the preceding paragraph, proper books of account have been kept and the accompanying financial statements give a true and fair view of the state of affairs of the Authority as at 30 June 2007 and of its deficit and cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with the Kenya Revenue Authority Act, Cap. 469 of the Laws of Kenya.

Dated the 3rd January, 2008.

P. N. KOMORA,
Controller and Auditor-General.

INCOME STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2007

	NOTE	2006/2007 KSh. '000	2005/2006 KSh. '000
INCOME			
Agency Income	3	5,192,276	3,960,252
Other Income	4	929,010	864,534
		<u>6,121,285</u>	<u>4,824,786</u>
EXPENDITURE			
Staff Emoluments	5	4,400,765	3,582,460
Other Operating Expenses	6	1,979,326	1,977,589
Depreciation and Amortisation	7	510,928	479,301
		<u>6,891,019</u>	<u>6,039,350</u>
DEFICIT FOR THE YEAR		<u>(769,734)</u>	<u>(1,214,564)</u>

The Income and Expenditure statement is to be read in conjunction with the notes to and forming part of the financial statements set out below

BALANCE SHEET AS AT 30TH JUNE, 2007

	NOTE	2006/2007 Kshs '000	2005/2006 Kshs '000
<i>Non Current Assets</i>			
Property Plant & Equipment	8	5,909,834	5,960,800
Intangible Assets	9	17,228	47,439
Amount due from Treasury	11	1,814,859	1,611,575
Security Deposits	12	775,331	709,002
		<u>8,517,252</u>	<u>8,328,816</u>
<i>Current Assets</i>			
Debtors	10	594,566	193,484
Amount due from Treasury	11	-	790,341
Cash and Bank Balances	13	1,945,737	1,791,608
		<u>2,540,303</u>	<u>2,775,433</u>
<i>Current Liabilities</i>			
Creditors	14	549,825	416,781
Provisions	15	279,985	189,312
		<u>829,810</u>	<u>606,093</u>
<i>Net Current Assets</i>		1,710,493	2,169,340
<i>Net Assets</i>		<u>10,227,745</u>	<u>10,498,156</u>
<i>Non Current Liabilities</i>			
Contribution to Govt Pension Fund	16	31,333	32,221
<i>Financed by:</i>			
Contribution by the Treasury	17	7,733,509	7,311,509
Accumulated Fund		2,282,714	3,052,448
Designated Fund	18	180,189	101,978
		<u>10,196,412</u>	<u>10,465,935</u>
		<u>10,227,745</u>	<u>10,498,156</u>

The financial statements set out below were approved by the Board of Directors on 28th August, 2007 and were signed on its behalf by:

L. M. J. MWANGOLA

Chairman.

M. G. WAWERU

Commissioner-General.

The Balance Sheet is to be read in conjunction with the notes to and forming part of the financial statements set out below

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE, 2007

	NOTE	Contribution by Treasury Kshs'000	Accumulated Fund Kshs'000	Designated Fund Kshs'000	Total Fund Kshs'000
At 1 July 2005		6,425,509	4,065,127	427,494	10,918,130
Contribution for the year		886,000	-	-	886,000
Deficit for the Year		-	(1,214,564)	-	(1,214,564)
Transfer to Accumulated Funds		-	201,885	(201,885)	-
Net Legal Funds Received		-	-	101,978	101,978
Interest Earned		-	-	(225,609)	(225,609)
At 30th June, 2006		7,311,509	3,052,448	101,978	10,465,935
At 1st July, 2006		7,311,509	3,052,448	101,978	10,465,935
Contribution for the year	17	422,000	-	-	422,000
Deficit for the year		-	(769,734)	-	(769,734)
Net Funds Received	18	-	-	78,211	78,211
At 30th June, 2007		7,733,509	2,282,714	180,189	10,196,412

The statement of Equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 6 to 15.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2007

	NOTE	2006/2007 Kshs `000	2005/2006 Kshs `000
CASH FLOWS FROM OPERATING ACTIVITIES			
Deficit for the year		(769,734)	(1,214,564)
Non- cash movements			
Depreciation	8	480,200	448,746
Amortisation	9	30,728	30,555
Profit on disposal of Assets		(1,222)	(2,290)
Increase in Security Deposits	12	(66,329)	(108,424)
Prior Period Adjustment		-	77,232
Decrease in Receivables		185,975	1,829,161
Increase/(Decrease) in Payables		222,829	(367,725)
Net cash flows from operating activities		82,447	692,691
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Fixed Assets		(430,444)	(480,992)
Proceeds from sale of Fixed Assets		1,915	8,377
Net cash flows from investing activities		(428,529)	(472,615)
CASH FLOWS FROM FINANCING ACTIVITIES			
Contribution by the Treasury	17	422,000	886,000
Increase in designated Funds	18	78,211	101,978
Refund of Un-utilised Y2K Project Funds		-	(225,609)
Net cash flows from financing activities		500,211	762,369
NET INCREASE IN CASH AND CASH EQUIVALENTS		154,129	982,445
Cash and cash equivalents at 1st July		1,791,608	809,163
CASH AND CASH EQUIVALENTS AT 30TH JUNE	13	1,945,737	1,791,608

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out below.

REVENUE COLLECTION

2006/2007

2005/2006

ACTUAL
Kshs 'million'

ESTIMATE
Kshs 'million'

ACTUAL
Kshs 'million'

ESTIMATE
Kshs 'million'

EXCHEQUER REVENUE

Customs Taxes	117,909	117,797	84,610	97,393
Domestic Taxes	213,777	211,028	181,885	183,140
Traffic Revenue	1,698	1,820	2,590	3,176
SUB-TOTAL	333,384	330,645	269,085	283,709

AGENCY TAXES

Customs Taxes	24,540	22,556	26,545	15,143
Domestic Taxes	1,840	2,512	1,729	1,830
Traffic Revenue	427	373	344	387
SUB-TOTAL	26,807	25,441	28,618	17,360

GROSS TOTAL	360,191	356,086	297,703	301,069
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NOTES TO THE FINANCIAL STATEMENTS

1. ESTABLISHMENT

Kenya Revenue Authority was established by an Act of Parliament, The Kenya Revenue Authority Act, and Cap. 469. The Authority's objectives are the assessment and collection of revenue, administration, enforcement of laws relating to and accounting for revenue collected under the Act.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements are prepared on the historical cost basis of accounting modified by the revaluation of certain assets. They are presented in Kenya Shillings (Kshs) rounded to the nearest thousand shillings and comply with International Financial Reporting Standards (IFRS).

(b) Revenue Recognition

In accordance with the Kenya Revenue Authority Act, Cap. 469, income to the Authority is 1.5% of total estimated revenue to be collected by the Authority on behalf of the Exchequer. Income is recognized when earned. In addition, the Authority is entitled to a Bonus of 3% of the surplus revenue collected above the estimates and also earns income from appropriation in aid and other activities.

(c) Development funding and asset Contributions by the Treasury

Contributions by the Treasury in form of assets or funding for acquisition of major assets or development projects are recognized as a financing reserve when received. No repayment of the financing is expected by the Authority.

(d) Property, Plant and Equipment

The value of land is not reflected as prepaid lease rentals as the land was allocated to the Authority at no purchase consideration.

Property, plant and equipment are stated at cost or valuation less accumulated depreciation. No depreciation is provided on freehold land. Depreciation is calculated to write off the cost or valuation of each asset to its residual value where applicable, over the expected useful life of the asset in equal installments. A full year's depreciation is charged in the year of purchase but no charge is made in the year of disposal.

The estimated useful life is as follows: -

Plant & Machinery	8 years
Equipment/Furniture/Fittings	8 years
Boats	8 years
Motor Vehicles	5 years
Computers	3 years
Buildings	40 years

Gains or losses on property, plant and equipment are determined by reference to their carrying value and are taken into account in determining the surplus / (deficit) for the year.

(e) Intangible Assets

Intangible assets consist of various computer software systems purchased for use by the Authority. The Authority recognises Intangible Assets acquired separately at cost less accumulated amortisation. Amortisation is charged on a straight-line basis over their useful lives as estimated by management from time to time.

(f) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date, which are expressed in foreign currencies, are translated into Kenya Shillings at the rate ruling on that date. The resulting differences are dealt with in the income and expenditure statement in the financial year in which they arise.

(g) Retirement Benefits Obligations

The Authority operates a hybrid pension scheme with a defined benefit section and a defined contribution section for the permanent and pensionable employees. The pension costs relating to this scheme are assessed in accordance with advice of a qualified actuary. The assets of the scheme are held in a separate trustee-administered fund. The cost of providing pension and other post-retirement benefits for employees is charged to the income and expenditure account.

(h) Cash and Cash equivalents.

For purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and short-term deposits held with banks.

(i) Leave Allowance Provision

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by the employees up to the balance sheet date.

(j) Taxation

The Authority is exempt from taxation on investment income.

3. AGENCY INCOME

	2006/2007 Kshs '000	2005/2006 Kshs '000
Agency Income	4,970,944	3,960,252
Bonus	221,331	0
	<u>5,192,275</u>	<u>3,960,252</u>

The Agency Income and Bonus are provided in accordance with the provisions of the Kenya Revenue Authority Act, Cap. 469.

4. OTHER INCOME

	2006/2007 Kshs '000	2005/2006 Kshs '000
Road Maintenance Levy Commission	318,538	160,479
IDF, PDL Income	23,532	174,608
Sale of Number Plates	154,759	106,964
Sale of Tamper Proof Seals	38,126	32,285
Public Overtime	17,975	13,146
Document Processing Fees	18,095	24,935
Aviation Revenue Commission	29,441	22,864
Air Passenger Service Charge Commission	37,018	29,426
Sugar Development Levy Commission	25,916	20,527
Sale of PSV Badges	6,661	10,840
Interest Income	111,095	99,409
Staff Housing Rental Income	61,873	60,311
Property Rental Income	11,466	10,068
Gain on disposal of Fixed Assets	1,222	2,290
Insurance Deductions Commission	1,116	1,186
Miscellaneous Income **	72,177	95,196
	<u>929,010</u>	<u>864,534</u>

**Miscellaneous income consists of income from sale of tender documents, revenue stamps, staff identity cards, training school activities and road transit toll collections.

5. STAFF EMOLUMENTS

	2006/2007 Kshs '000	2005/2006 Kshs '000
Travelling and Accommodation	273,968	255,823
Utilities	227,982	288,286
Staff Welfare	25,987	20,427
Medical Expenses	191,455	94,987
Printing & Stationery	187,774	195,937
Rent & Rates	66,839	72,182
Consultancy	9,354	40,953
Tax Payer Education	35,704	28,978
Computer Expenses	74,730	108,112
Training Expenses	160,760	180,580
Motor Running Expenses	101,370	114,544

	2006/2007 Kshs '000	2005/2006 Kshs '000
Building repairs and maintenance	46,393	32,489
Office Running Expenses	113,411	90,777
Advertising & Public Relations	53,601	72,927
Insurance Expenses	40,061	37,745
Secretarial Expenses	29,162	38,493
Official Entertainment	27,151	21,598
Uniforms & Laundry Expenses	9,642	1,039
Consumable Stores	9,758	14,659
Materials & Supplies	117,358	112,356
Bank Charges	1,832	1,258
Security Expenses	144,968	139,564
Motor Boat Repairs	16,633	259
Container Sealing Expenses	10,638	8,694
Laboratory Expenses	2,795	4,922
	<u>1,979,326</u>	<u>1,977,589</u>

	2006/2007 Kshs '000	2005/2006 Kshs '000
Salaries and Allowances	4,341,570	3,506,291
Staff Leave Provision	59,195	76,169
	<u>4,400,765</u>	<u>3,582,460</u>

6. OTHER OPERATING EXPENSES

	2006/2007 Kshs '000	2005/2006 Kshs '000
Depreciation charge on Fixed Assets	480,200	448,745
Amortisation of Intangible Assets	30,728	30,556
	<u>510,928</u>	<u>479,301</u>

7. DEPRECIATION AND AMORTIZATION

	Buildings Kshs '000	Plant & Machinery Kshs '000	Motor Vehicles Kshs '000	Office Equipment Furniture Kshs '000	Computers Kshs '000	Motor Boats Kshs '000	Wip Kshs '000	Total Kshs '000
COST/VALUATION								
1 Jul 2006	5,769,437	659,703	578,929	360,841	783,374	23,664	155,128	8,331,076
Additions	3,609	1,314	86,025	41,461	85,568		211,950	429,927
Disposals			(19,360)					(19,360)
Category Change	4,884			14,708			(19,592)	-
30 June 2007	<u>5,777,930</u>	<u>661,017</u>	<u>645,594</u>	<u>417,010</u>	<u>868,942</u>	<u>23,664</u>	<u>347,486</u>	<u>8,741,643</u>
DEPRECIATION								
1 Jul 2006	953,389	190,383	389,142	223,901	589,797	23,664	-	2,370,276
Charge for period	144,236	82,627	59,268	41,658	152,411	-		480,200
Disposals			(18,667)					(18,667)

	<i>Buildings</i>	<i>Plant & Machinery</i>	<i>Motor Vehicles</i>	<i>Office Equipment Furniture</i>	<i>Computers</i>	<i>Motor Boats Kshs '000</i>	<i>Wip</i>	<i>Total</i>
	<i>Kshs '000</i>	<i>Kshs '000</i>	<i>Kshs '000</i>	<i>Kshs '000</i>	<i>Kshs '000</i>	<i>Kshs '000</i>	<i>Kshs '000</i>	<i>Kshs '000</i>
30 June 2007	1,097,625	273,010	429,743	265,559	742,208	23,664	-	2,831,809

NET BOOK VALUE

30 June 2007	4,680,305	388,007	215,851	151,451	126,734	-	347,486	5,909,834
30 June 2006	4,816,048	469,320	189,787	136,940	193,577	-	155,128	5,960,800

8. PROPERTY, PLANT AND EQUIPMENT

(i) Movement Schedule

(

(ii) Land & buildings

There are parcels of leasehold land countrywide which were transferred to the Authority from the Government at no purchase consideration and with no title documents. The value of the leasehold land has not been recognised as an operating lease in the financial statements in accordance with the IAS 17 requirements since they were transferred to the Authority at no cost.

The Authority is yet to receive title documents to some 12 pieces of leasehold land with carrying values of Kshs 72,185,000.

Included in Buildings is the Times Tower Building valued at Kshs 2,594,391, 058. The title of the Building is still in the name of Central Bank of Kenya. The process of transferring the title to the Authority is in progress.

(iii) Fully depreciated assets

Included in the assets are fully depreciated assets comprising of Motor vehicles whose original cost was Kshs 337,958,589 with a residual value of Kshs 33,795,859, Motor Boats whose cost is Kshs 23,663,422, Computers whose cost is Kshs 419,787,638, Office Equipment of Kshs 58,122,321 and Furniture and Fitting of Kshs 24,445,670 whose book value is nil. The total notional depreciation charge for the assets is Kshs 216,976,312 (2006- Kshs 198,318,452). Most of these assets are in use by the Authority.

(iv) Capital Work In Progress

	<i>2006/2007</i>	<i>2005/2006</i>
	<i>Kshs '000</i>	<i>Kshs '000</i>
Partitions for Times Tower Convention Centre	47,907	19,031
Partitions at Swan centre Kisumu		6,732
Construction of Staff Houses Lokichoggio	16,703	8,246
Waterworks at Times Tower		4,884
Security Installation works at Times Tower	15,179	15,178
Customs Laboratory Fit Out	16,172	3,636
Mawenzi Estate Renovation	132,352	97,420
Soweto Estate Renovation	119,173	
	<u>347,486</u>	<u>155,128</u>

9. INTANGIBLE ASSETS

	<i>2006/2007</i>	<i>2005/2006</i>
<i>COST</i>	<i>Kshs '000</i>	<i>Kshs '000</i>
1 July	117,928	76,410
Additions	<u>517</u>	<u>41,518</u>
30 June	118,445	117,928
AMORTISATION		
1 July	70,489	39,933
Additions	<u>30,728</u>	<u>30,556</u>
30 June	101,217	70,489
NET BOOK VALUE		
30 June	<u>17,228</u>	<u>47,439</u>

Included in the Intangible Assets are fully amortised assets whose original cost was Kshs 26,259,908 (2006- Kshs 26,259,908). The notional annual amortisation on these assets is Kshs 8,753,303 (2006 – Kshs 8,753,303). The fully amortised assets are in use by the Authority.

10. DEBTORS

	2006/2007 Kshs '000	2005/2006 Kshs '000
Trade Debtors		
Other Agency Debtors	89,539	59,676
Rent Receivable	660	16,664
Interest Receivable	2,988	7,066
	<u>93,187</u>	<u>83,406</u>
Other Debtors		
Staff Debtors	60,331	24,206
Prepayments & Advances	409,887	66,472
Other Debtors	31,161	19,400
	<u>501,379</u>	<u>110,078</u>
	<u>594,566</u>	<u>193,484</u>

The Prepayments and Advances figure includes the advance payments made for the acquisition of Scanners and Boats amounting to Kshs 399.6 million. Other agency debtors represents outstanding commission on collection of revenues on behalf of other organisations. The Authority made a provision for debts amounting to Kshs 16.5 million, being rent arrears on commercial properties whose recoverability is doubtful.

11. AMOUNT DUE FROM TREASURY

	2006/2007 Kshs '000	2005/2006 Kshs '000
1 July 2006	2,401,916	4,353,712
Net amount received in the year	<u>(587,057)</u>	<u>(1,951,796)</u>
30 July 2007	<u>1,814,859</u>	<u>2,401,916</u>
Disclosed as:		
Receivable within one year	-	790,341
Receivable after one year	<u>1,814,859</u>	<u>1,611,575</u>
	<u>1,814,859</u>	<u>2,401,916</u>

The amount represents outstanding agency commission, bonuses and payments on behalf of the Treasury.

The amount disclosed as receivable within one year is the amount allocated by Treasury to be paid to the Authority within the next one year.

It is noted that the amount due from the Treasury had been long outstanding and has been the subject of audit qualification over the years. However, substantial amounts have since been received and the Authority is pursuing the disbursement of the balance from the Treasury.

12. SECURITY DEPOSITS

	2006/2007 Kshs '000	2005/2006 Kshs '000
Savings & Loan (k) Ltd	543,466	490,965
Housing Finance	120,788	110,147
National Bank of Kenya Ltd	<u>111,077</u>	<u>107,890</u>
	<u>775,331</u>	<u>709,002</u>

The deposits with Savings & Loans and Housing Finance are placed as security against staff mortgage advances, while the National bank deposits are placements against staff car loans.

13. CASH AND BANK BALANCES

	2006/2007 Kshs '000	2005/2006 Kshs '000
Trade Payables	578,511	407,377
Staff Creditors	7,720	9,566
Leave Provision	243,360	184,166
Withholding Tax	219	4,984

	829,810	606,093
14. CREDITORS		
Staff Leave Provision	243,360	184,165
General Provisions	36,625	5,146
	279,985	189,311

15. PROVISIONS

The general provisions relate to utilities and staff medical expenses.

16. CONTRIBUTION TO GOVERNMENT PENSION FUND

	2006/2007 Kshs '000	2005/2006 Kshs '000
1 July 2006	32,221	32,491
Payment to the Treasury in the year	(888)	(270)
30 July 2007	31,333	32,221

This amount relates to contributions made to the Government pension during the nine-month secondment period from October, 1995 to June, 1996 for pensionable staff who were transferred from the Treasury to the Authority. The amount falls due for payment on retirement of an officer and is then transferred to the Treasury to facilitate processing of the pension.

17. CONTRIBUTION BY THE TREASURY

The amounts represent assets and asset funds provided by the Treasury. The Treasury separately funds the major reform and modernization programmes undertaken by the Authority in all departments for revenue enhancement and efficient service delivery. The Authority is procuring 6 X-ray Scanners from China at a total cost of US Dollars 17,790,000 to be paid over 3 years of which an advance payment of US dollars 5,337,000 has been made. The Authority is also procuring 4 patrol boats from Netherlands at a cost of Euros 4,314,070 to be paid over 2 years. An advance payment of Euros 314,262 has been made for the first boat. The Treasury is expected to provide the funding for the settlement of the future payments when they fall due (US \$ 12,453,000 and Euros 3,999,808).

18. DESIGNATED FUNDS

	Legal Claim Fund Kshs '000	World Bank Funds Kshs '000	Cces Training Funds	Total Kshs '000
1 July 2006	101,978			101,978
Funds Received	-	75,650	2,862	78,512
Interest Earned		524		524
Amount Spent		(825)		(825)
	-	75,349	2,862	78,211
30 June 2007	101,978	75,349	2,862	180,189

The legal claim funds are received from the Treasury for settling legal awards against the Authority in revenue related court cases. The World Bank funds consist of the Public Financial Management Fund (PFM) and the East African Trade and Transportation Facilitation Fund (EATTF) provided to improve the infrastructure for monitoring movement of goods for the facilitation of trade in East Africa. The amount spent in the year is in respect of training in World Bank Procurement rules. The Centre for Customs and Excise Studies (CCES) funds relate to funds received from the Australia Agency for International Development (AUSaid) for Senior Management Training Programme offered by the University of Canberra.

19. RETIREMENT BENEFIT COSTS

During the year ended 30th June, 2007, Kshs 450.1 million (2006 Kshs 379.1 million) was paid as contributions to the staff pensions scheme. The scheme changed from a defined benefit plan to a Hybrid scheme with a defined benefit section and a defined contribution section with effect from 1st July, 2005. Under the defined benefit scheme, the employer contribution on actuarial advice was maintained at 13.2% per member while a rate of 14% was adopted for the defined contribution scheme. Employees contribute 7.5% of their salaries for both sections of the scheme. The value placed on the existing final assets per the last valuation of 30th June 2006, was Kshs 2,529.1 million while the present value of past service liabilities at that date was Kshs 2,485.9 million.

20. CAPITAL COMMITMENTS

	2006/2007 Kshs '000	2005/2006 Kshs '000
Approved and contracted	711,995	153,267
Approved and not contracted	-	243,000

711,995

396,267

21 EMPLOYEES

The number of employees at the year end was,

	2006/2007	2005/2006
30 June	3,902	3,524

22 CONTINGENT LIABILITIES

There are disputed telephone bills amounting to Kshs 12,505,644. These relate to data lines which are not in use by the Authority but which Telkom (K) Ltd has billed the Authority. An amount of Kshs. 2 million included in utility deposits represents a bank guarantee to Kenya Power and Lighting for Times Tower. An amount of Kshs 1,297,759 represents a guarantee to Telkom Kenya Limited for supply of telephone facilities in the Times Tower building.

There are pending legal cases and court awards against the Authority estimated at Kshs 3,270,166,823 at the financial year end. The Treasury is expected to meet the cost of settling the awards should they materialize. There are eighteen other court cases where Taxpayers have made Judicial Review applications which do not have monetary claim. The contingent liability in respect of these cases is estimated at Kshs. 18 million.

21. COMPARATIVES

Where necessary, comparatives have been adjusted to conform to changes in presentation in the current year.

22. CURRENCY

The Financial Statements are presented in Kenya Shillings (Kshs '000).