

REPUBLIC OF KENYA



Enhancing Accountability

REPORT

THE NATIONAL ASSEMBLY
PAPER NO. 10

DATE: 03 MAR 2022

TABLED BY:	LDM
CLERK-AT THE-TABLE:	C. Ndlovu

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THE AUDITOR-GENERAL

ON

EXPORT PROCESSING ZONES AUTHORITY

**FOR THE YEAR
ENDED 30 JUNE, 2020**



EPZA

EXPORT PROCESSING ZONES AUTHORITY | **KENYA**

Your Investment & Trade Partner

EXPORT PROCESSING ZONES AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2020**

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

Export Processing Zones Authority
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KEY EPZA INFORMATION AND MANAGEMENT

(a) Background information

The Export Processing Zones Authority (EPZA) was established under the EPZ Act (Cap 517) on 23 November, 1990 for the promotion and facilitation of export oriented investments and the development of an enabling environment for investment in the export sector. EPZA is domiciled in Kenya and its head office located at the Athi River Export Processing Zone. It has regional offices in Mombasa and Kisumu Cities.

EPZA, being a state corporation, is governed by The State Corporations Act (Cap 446) in addition to the EPZ Act of the Laws of Kenya. It thus adheres to the rules and regulations stated in both Acts in addition to other relevant laws. EPZA is provided with general direction by a board comprising 14 members appointed from both private and public sectors. The board is headed by a chairman from the private sector, appointed by His Excellency, the President.

The day-to-day operations of EPZA are managed by a staff of 177 headed by the Chief Executive Officer, hereafter referred to as CEO, who is appointed by the Cabinet Secretary for the Ministry responsible for Industry, on recommendation by the Board. The CEO is charged with the direction of the affairs and transactions of EPZA, the exercise, discharge and performance of the Authority's objectives, functions and duties, and the administration and control of the employees of the Authority.

To discharge its mandate and functions effectively, the EPZ Authority has been structured into various directorates, departments, sections and units. The directorates and departments report directly to the CEO and are headed by General Managers and managers respectively.

The directorates are: Operations and Investor Support; Investment and Corporate Communications; Research, Strategy and Compliance; Commercial and Technical Services; Finance, HR and Administration while departments are Corporate and Legal Services; Supply Chain Management and Internal Audit.

(b) EPZA Principal Activities

Vision

EPZA's Vision is: "To Be the Leading Agency for the Promotion of Export Oriented Investments and Trade"

Mission

EPZA's Mission is: "To Efficiently Attract and Retain Export Oriented Investments and Trade"

Core Objectives

As stipulated in the EPZ Act of 1990 the objective and the purpose of establishment is to efficiently attract and retain export-oriented investments and trade.

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KEY EPZA INFORMATION AND MANAGEMENT (Continued)

The Authority's Key activities are:

- Development of all aspects of the export processing zones with particular emphasis on provision of advice on the removal of impediments to, and creation of incentives for, export-oriented production in areas designated as export processing zones;
- Regulation and administration of approved activities within the export processing zones; and
- Protection of government revenues and foreign currency earnings.

(c) Key Management

The Authority's day-to-day managements under the following key organs:

- Board of Directors;
- Chief Executive Officer; and
- Management

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2019 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Ag.Chief Executive Officer	Mr. Henry Obino
2.	Ag.General Manager, Commercial & Technical Services	Mr. John Akara
3.	Ag.General Manager, Operations& Investor Support	Mr. Peter Wainaina
4.	Ag.General Manager, Investment & Corporate Communications	Mr. Benjamin Chesang
5.	Manager, Finance & Administration	Mr. Denis Kinyua
6.	Ag. Corporate Secretary and Manager Legal Services	Ms. Winnie Sang
7.	Ag.Manager, Human Resource& Administration	Ms. Miriam Mutuma
8.	Manager, Internal Audit	Mr. Jorum Ngunyi
9.	Ag.Manager, Supply Chain	Mr. Edgar Abayo
10.	Ag.Manager, Preventive Services	Mr. Didacus Atiang

(e) Fiduciary Oversight Arrangements

The Board has delegated some of its mandate to Board Committees. There are three standing committees of the Board which meet independently i.e. Board Audit Committee, Finance and Staff Committee and Strategy Investments & Special Projects Committee.

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KEY EPZA INFORMATION AND MANAGEMENT (Continued)

Board Audit Committee

The functions of the Board Audit Committee will include: -

- To review the scope and planning of the audits;
- To review the Annual Financial Statements of the Authority, focusing particularly on:
 - i. Compliance with Government Financial Regulations, International Accounting Standards, other legal requirements and best practice;
 - ii. Significant adjustments arising from the audit
 - iii. Any changes in accounting policies and practices;
- To discuss interim and final audits, management letter and any matter the external auditor(s) (Office of the Auditor General) may wish to discuss;
- Any other functions that the Authority may decide from time to time that are incidental or conducive to the attainment of the objectives of the Authority.

Finance and Staff Committee

The functions of the Finance and Staff Committee will include: -

- To approve and maintain budgetary systems of the Authority;
- To oversee financial reporting process and Authority's system;
- To review and recommend to the Board approval of the Annual Procurement Plan
- To receive and review quarterly procurement reports and recommend to the Board approval of the reports
- To approve and give recommendations on borrowings by the Authority;
- To review and recommend to the Board as appropriate all matters pertaining to the preparation of capital budgets;
- To monitor all major capital project
- Monitor the financial reporting process to ensure compliance with all regulatory returns, and reports as required to be made to Government;
- To approve recommendations on Terms and Conditions of Employment in the Authority, recruitment functions and staff appraisals;
- To ensure that effective management succession planning and management development plans are in place;
- To approve programmes and policies involving the overall compensation of employees and Authority's collective bargaining agreement;
- To receive and review quarterly reports on Human Resource at the Authority

Strategy, Investments and Special Projects Committee

The functions of the Strategy, Operations and Investments Committee will include: -

- To adopt a strategic planning process and provide leadership in setting the Authority's strategic Direction;
- To review and recommend for the Board's approval the Authority's 5-year Strategic plan, objectives, budgets, performance indicators, business plans, annual work plans and Performance contracts established to achieve them;
- To review and monitor corporate performance against approved targets and measures;

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- Review, approve or recommend to the Board as appropriate all matters pertaining to the preparation of performance contracts
- To receive, review and recommend the approval of the board the quarterly performance contract reports
- To ensure policies and processes are in place for effective communication with the Government, other stakeholders and the public;
- To approve and monitor compliance with significant policies and procedures which have a material impact on the operations of the Authority;
- Monitor and approve or recommend to the Board as appropriate all matters relating to maintenance of physical assets of the Authority and leasing;
- Policy Issues that affect EPZs, Free Zones and Economic Zones worldwide and investment including the World trading system – W.T.O., AGOA and Regional groupings including COMESA and E.A.C.,
- To make proposals to Government for enhancement of the EPZ programme;
- To develop a programme to promote the participation of indigenous Kenyans/small and medium size enterprises in the EPZ programme;
- To develop the Incubator project in the EPZ programme;
- To develop linkages between the EPZs and the domestic market including sourcing raw materials, packaging materials and supplies, matters related to technology/development sourcing and training linked to skills required in EPZs;
- To develop and monitor all Authority's promotion Public Relations and marketing polices and strategies;
- To advise the Board on emerging threats and opportunities from the changing environment, based on market analyses;
- EPZA's Advisory role to government on the development of the EPZ programme.
- EPZA's implementation of policies and programmes of Government in respect of development of EPZs;
- Any other functions that the Authority may decide from time to time that are incidental or conducive to the attainment of the objectives of the Authority.

Human Recourse and Administration Committee

- Review and formulate on behalf of the Board Human Resource Policies of the Company;
- Identify best practices with regard to Staff development and relations;
- Identify and recommend to the Board the recruitment of senior management level staff;
- Any other business directed by the Board or relevant to the mandate of the Committee;
- Report at regularly scheduled Board Meetings on matters coming before the Committee

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(f) EPZA Headquarters

Administration Building, Viwanda Road,
Off Nairobi-Namanga Highway,
Athi River, Kenya
P.O. Box 50563,
Nairobi 00200, Kenya.

(g) EPZA Contacts

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Cell phone: Safaricom: 0713-051172/3
Airtel: 0786-683222/0733-683222
E-mail: information.desk@epzakenya.com
Website: www.epzakenya.com

(h) EPZA Bankers

National Bank of Kenya
Haile Selassie Avenue
P.O. Box 45219-00100
Nairobi, Kenya

Kenya Commercial Bank
Kajiado-Namanga Road
P.O. Box 126-00242
Kitengela, Kenya

Housing Finance
Rehani House, Kenyatta Avenue/Koinange Street
P.O. Box 30088-00100
Nairobi, Kenya

(i) Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

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(j) Principal Legal Adviser

The Attorney General
State Law Office
Attorney General Chambers
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

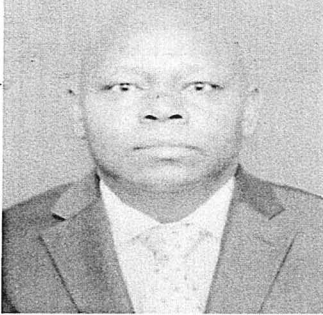


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BM Musau & Co., Advocates
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Nairobi Kenya

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THE BOARD OF DIRECTORS

No	Director's passport-size photo and name, and key profession/academic qualifications	Concise description of each Director's date of birth, Key qualifications and work experience
1	 Paul Gicheru EPZA Chairman	<p>Mr. Paul Gicheru is the Board Chairman of the Export Processing Zones Authority (EPZA). He is an Advocate of the High Court of Kenya with over 20 years of experience and a Commissioner of Oaths and a Notary Public. He has vast experience handling legal matters including but not limited to Corporate Law, Arbitration, Conveyancing and Banking Matters. He is the proprietor of the Law Firm, M/s Gicheru & Company Advocates. He has previously served as the Chairman of the Public Procurement Regulatory Authority.</p>
2	 Dr. Francis O. Owino, PHD Principal Secretary - State Department of Industrialization, PHD (Peace and Conflict Studies), MBA (Strategic Management)	<p>Dr. Francis O. Owino, PHD, is the Principal Secretary, State Department of Industrialization in the Ministry of Industrialization, Trade and Cooperatives. He is a holder of an PHD in Peace and Conflict studies from Masinde Muliro University of Science and Technology, MBA degree in Strategic Management from Mount Kenya University and Bachelor of Arts (B.A) from University of Nairobi. He possesses a Certificate in Guidance and Counselling from University of Nairobi in 2005. Some of his previous assignments include; Director, National Cohesion and Values with effect from 8th September 2009 to 14th August 2018, Assistant Secretary, Senior District Officer, Senior Assistant Secretary, Undersecretary and Acting Deputy Secretary</p>
3	 Doris Githua Principal State Counsel, State Department of Industrialization, MA International Conflict Management, LLB	<p>Ms. Doris Githua is the Alternate Director to the Principal Secretary of the State Department for Industrialization. Born in 1982, She is currently the Head of Legal Department at the State Department for Industrialization. She holds a Master of Arts in International Conflict Management from The University of Nairobi, a Post Graduate Diploma from the Kenya School of Law and a Bachelor of Laws (LLB) from The University of Nairobi. She is an Advocate of the High Court of Kenya over 12 years' experience in Commercial law, Corporate law, Investment law, International Trade Law, and Court Litigation. She has previously worked in the Office of the Attorney General as State Counsel and has been instrumental on the Ease of Doing Business Reforms in Kenya.</p>




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4	 <p>Stanley Kagera Economist MA (Economic Policy) MA (Economic Policy)</p>	<p>Mr. Stanley Kagera is the Alternate Director of the Cabinet Secretary, National Treasury. He holds a Masters in Economic Policy (Makerere University) and a Bachelor of Arts in Economics (Kenyatta University). Mr Kagera has is an Economist in various ministries. Currently he is the Deputy Director, Public Private Partnership (PPP) Unit at the National Treasury.</p>
5	 <p>Dr. Lydia Ndirangu Economist PhD (Development Economics)</p>	<p>Dr. Lydia Ndirangu is the representative of the Governor, Central Bank of Kenya at the Board. Born in 1966, Dr. Ndirangu holds a PhD in Developer Economics and she is the Head of Research Cent at Kenya School of Monetary Studies (KSMS). Dr. Ndirangu has over 25 years' experience in Research, Public Policy and Analysis.</p>
6	 <p>Dr. Moses Ikiara MD- Kenya Investment Authority PhD (Environmental and Natural Resource Economics)</p>	<p>Dr. Moses Ikiara is the Managing Director of Kenya Investment Authority and represents Kenya Investment Authority at the Board. Dr. Ikiara holds a PhD in Environmental and Natural Resource Economics. Born in 1966, Dr. Ikiara has over 15 years' experience in Public Policy and Analysis.</p>
7	 <p>Hon. Kiso Munyao - Entrepreneur BBA (International Centre for Leadership & Management), Bachelor of Laws, Dip(Law)</p>	<p>Hon. Kiso Munyao is a member from the Private Sector. Born in 1973, Hon. Kiso has held several positions in private and public sector. He is the Chief Executive Officer of Foundation Institute of Africa Ltd and chairs the Board of Trustees of Kenya Youth Education Scholarship Fund. Hon. Kiso was a member of National Assembly (Mbooni Constituency) from 2013-2018 and served in Education, Research and Technology and Delegated Legislation Parliamentary Committees from 2013 to 2017. He holds BBA (International Centre for Leadership and Management), Bachelor of Laws (Mt. Kenya University), and Diploma in Law among other certifications.</p>


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8	 <p>Christine Atieno Otieno Advocate,LLB</p>	<p>Ms. Christine Atieno Otieno, is a member from the Private Sector. She is an Advocate of the High Court of Kenya, Certified Notary Public and Certified Commissioner of Oaths. Born in 1966, she holds LLB form University of Nairobi. Christine is a partner at Maangi & Otieno Advocates and she is in charge of Finance and Administration. She is a well-experienced advocate, researcher in human rights and violence against women, a gender specialist, and a policy analyst in law reforms and development issues. Also, she has experience in regional and international instruments and declarations.</p>
9	 <p>Frank Ochieng' Walukwe Advocate, LLB</p>	<p>Mr. Frank Ochieng Walukwe is a member from the private sector. He is an Advocate of the High Court of Kenya, Certified Notary Public and Certified Commissioner of Oaths. Born in 1986, he holds LLB and currently pursuing Masters in Tax and Customs Administration and, at the same time he is a certified Professional Mediator. He is an experienced researcher, Advocate and currently, he is the Managing Partner at Ochieng' Walukwe & Associates.</p>
10	 <p>Eva Buyu Msando-Communication Expert B.A (Leadership and Management), Dip (Public Relations-ABMA-UK),Dip (Cabin Crew-ICM-UK)</p>	<p>Ms. Eva Buyu Msando is a member from the Private Sector. Born in 1983, Ms. Eva is the current Corporate and Communication Manager at GSI Kenya (Global Standards Company). Previously, she was the Public Relations Executive in the same Company.</p> <p>She holds a Bachelor's degree in Leadership and Management from St. Paul's University and a Diploma in Public Relations and Cabin Crew, both of them from UK. Her experience spans over 13 years in various sectors including communication and leadership, banking, sales and marketing and logistics planning.</p>
11	 <p>Walter N. Kamau Economist MA (Economics)</p>	<p>Mr. Walter N. Kamau is an alternate member for Chief Executive Officer, Kenya Association of Manufacturers. Born in 1957, he holds a Master of Arts degree in Economics and a Bachelor of Arts degree, majoring in Economics from University of Poona, India. He has vast experience in trade and policy issues spanning over 34 years in both public and private sectors, with 24 years' work experience in the private sector. He is lead advocacy champion on trade and I policy issues in the EAC, COMESA, Africa Continental Free Trade Area, Tripartite Free Area, EAC- EU Economic Partnership Agreement and World Trade Organisation Agreements including representing Kenya's manufacturers in technical trade negotiations. He is currently the Technical Advisor on Trade and Policy issues for Kenya Association of manufacturers and the EPZA Chair of the Board Audit Committee.</p>

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12	 <p>John Kamama BSC(Admin & Leadership)</p>	<p>Mr. John Kamama is a member from the private sector. Born in 1961, he holds a Bachelor's of Science in Administration and Leadership from Jomo Kenyatta University of Science and Technology. Mr. Kamama has served as the vice chairman for Kenya National Chamber of Commerce and Industries (KNCCI) and has over 5 years' experience in leadership and governance.</p>
13	 <p>Benson Chacha BCom (Business Administration)</p>	<p>Mr. Benson Chacha is the representative Commissioner General, Kenya Revenue Authority (KRA). He holds a Bachelor's Degree in Commerce (Business Administration) from the University of Nairobi. He joined Customs Department in 1987. Currently he is the Chief Manager, Customs and Boarder Control Department, KRA.</p>
14	 <p>Henry Obino Acting CEO-EPZA MBA(Strategic Management)</p>	<p>Mr. Henry Obino is the Ag. Chief Executive Officer of EPZA. Born in 1964, Mr. Obino is a holder of a Masters degree in Business Administration majoring in strategic management from Moi University.</p> <p>Mr. Obino has over 32 years of experience in different capacities and disciplines. He has good understanding of government operations, programmes and policy development requirements. Prior to his current deployment, he was the Secretary of Administration in the Ministry of Industrialization, Trade and Enterprise development. While in the Ministry, he was responsible for coordination of all administrative and financial functions of the Ministry. He has also worked in several capacities including but not limited to Director of Administration, Senior deputy Secretary, Senior District Commissioner among others. In addition to being in charge of day-to-day operations of EPZA, Mr Obino is also responsible for execution and communication of Board's strategies, decisions and policies.</p>

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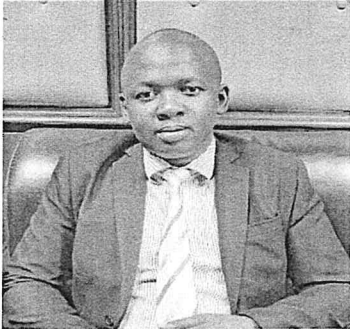
15	 <p>Winnie Sang - Advocate, LLB Ag. Corporate Secretary & Manager Legal Services</p>	<p>Ms. Winnie Sang is the Acting Corporate Secretary and Manager Legal Services in the EPZA. She is an Advocate of the High Court of Kenya, Notary Public and Commissioner of Oaths. Born in 1988, she holds LLB and is currently pursuing Masters in Public Policy and Administration and Certified Public Secretary (CPS). She has vast experience in legal field having previously worked with Kale Maina and Bundotich Advocates, Nyaundi Tuiyott and Company Advocate and other positions in EPZA Corporate and Legal department</p>
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MANAGEMENT TEAM

No	Passport-size photo, name, and key profession/academic qualifications	Main Area of Responsibility
1	 <p>Henry Obino Acting CEO-EPZA MBA (Strategic Management)</p>	<p>Mr. Henry Obino is the Ag. Chief Executive Officer of EPZA. Born in 1964, Mr. Obino is a holder of a Masters degree in Business Administration majoring in strategic management from Moi University.</p> <p>Mr. Obino has over 32 years of experience in different capacities and disciplines. He has good understanding of government operations, programmes and policy development requirements. Prior to his current deployment, he was the Secretary of Administration in the Ministry of Industrialization, Trade and Enterprise development. While in the Ministry, he was responsible for coordination of all administrative and financial functions of the Ministry. He has also worked in several capacities including but not limited to Director of Administration, Senior deputy Secretary, Senior District Commissioner among others. In addition to being in charge of day-to-day operations of EPZA, Mr Obino is also responsible for execution and communication of Board's strategies, decisions and policies.</p>
2	 <p>John O.B Akara Ag GM-Commercial & Technical Services MIA(EPM), MA(Econ.)</p>	<p>Mr. Akara, the Acting General Manager Commercial and Technical Services, was born in 1962 in Nyamira County. He holds a Bachelor, and Master's degree in Economics from the University of Nairobi. He also holds a Master of International Affairs in Economic policy management from Columbia University, New York. Mr. Akara has also graduated with an AMP jointly offered by Strathmore Business school, Lagos Business School and IESE Business school, University of Navara, Spain. Mr Akara has vast experience in matters of development investment promotion and management in both private and public sectors.</p>
3	 <p>Peter Wainaina Ag.GM-Operations and Investor Support B.Sc(Hons) in Mechanical Engineering</p>	<p>Mr.Peter Wainaina is the Acting General Manager, Operations and Investor Support at EPZA. Presently studying MBA at Tangaza University, holds B.Sc(Hons) in Mechanical Engineering from University of Nairobi and a member of Engineers Registration Board. Holds post graduate diploma in Industrial Engineering from Nagoya, Japan. He has attended several capacity building programs sponsored by the Commonwealth Secretariat on industrial clusters, SMEs, and Business Incubation development courses and also studied Programme for Management course in Strathmore Business School, Nairobi.He has a wide experience in different capacities in the NGO and International Agencies i.e UNDP/UNIDO and USAID in industrial development programs. At the Public Sector he has worked for the Ministry of Trade and Industries.</p>

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4	 <p>Benjamin Chesang Ag.GM-Investment & Corporate Communications, MA, BA (Economics)</p>	<p>Mr. Chesang is the Acting General Manager, Investment & Corporate Communications at EPZA. Born in 1965, he holds a BA in Economics and an MA in Economics. He has over 20 years' experience in public policy and senior management.</p>
5	 <p>Denis Kinyua Manager-Finance & Accounts MSc-Finance & Investment, B.Com-Finance, CPA-K, CIFA</p>	<p>Mr. Kinyua is the Manager Finance and Accounts. Born in 1981, he holds MSc in Finance & Investment, Bachelor of Commerce (Finance), CPA (K), CIFA Finalist and a member of Institute of Certified Public Accountants. Kinyua has over 10 years in Finance and Accounting field. Previously worked in Pinnacle International Consulting Ltd and Centre for Development Consultants Ltd firms based in Nairobi Kenya specializing in Financial Consultancy, Investment, Management Accounting and Auditing. He joined Export Processing Zones Authority as an Assistant Accountant in August 2010 and served as an Accountant, Principal Accountant and Management Accountant.</p>
6	 <p>Winnie Sang - Advocate, LLB Ag. Corporate Secretary & Manager Legal Services</p>	<p>Ms. Winnie Sang is the Acting Corporate Secretary and Manager Legal Service in the EPZA. She is an Advocate of the High Court of Kenya, Notary Public and Commissioner of Oaths. Born in 1988, she holds LLB and is currently pursuing Masters in Public Policy and Administration and Certified Public Secretary (CPS). She has vast experience in legal field having previously worked with Kale Maina and Bundotich Advocates, Nyaundi Tuiyott and Company Advocate and other positions in EPZA Corporate and Legal department</p>
7	 <p>Edgar Vincent Abayo Ag. Manager- Supply Chain BCOM (Purchasing and Business Logistics)</p>	<p>Mr Abayo is the Acting Manager-Supply Chain. Born in 1988, he is a holder of Bachelor of Commerce (Purchasing and Business Logistics), a Post graduate diploma in Procurement and supply and he is currently pursuing MBA (Corporate Management).</p> <p>He is experienced in Procurement planning cycle process, Contract Management, Supplier and Customer Relationship Management and Budgeting.</p>

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8	 <p>Miriam Mutuma Ag. Manager- Human Resources & Administration MBA, BBA (Human Resources),</p>	<p>Ms. Miriam Mutuma is the Acting Manager Human Resources and Administration. She holds MBA and BBA in Human Resources and is currently undertaking Certification in Human Resource. She has a demonstrated experience having worked with EPZA in various positions.</p>
9	 <p>Jorum Ngunyi Manager-Internal Audit MBA(Accounting),CPA(K), CSI</p>	<p>Mr. Jorum Ngunyi is the Internal Audit Manager EPZA. He holds MBA in Accounting, CPA(K), CSIA; a member of ICPAK and IIA, and has over 10 years of experience in risk management and auditing gained from Kenya National Audit Office, National Environmental Authority and Jomo Kenyatta Foundation.</p>
10	 <p>Didacus Atiang Ag. Manager- Preventive Services MBA (Corporate Management), BA (Criminology), ASIS International</p>	<p>Mr Atiang is the Acting Manager-Preventive Services at Export Processing Zones Authority. He is a holder of MBA in Corporate Management from KCA University and MA in Criminology and Security studies. He is a Certified Fraud Examiner (CFE), a professional member of ASIS international organizations for security professionals and a member of PROSAK. Mr. Atiang has over 10 years' experience obtained in the Disciplined Force (General Service Unit - GSU) in respect to security operations and management.</p>

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CHAIRMAN'S STATEMENT
BUSINESS REVIEW

It is my pleasure to present to you the Annual Report and Financial Statements for Export Processing Zones Authority for the Year Ended 30th June 2020.

The Export Processing Zones Authority (EPZA) was able to undertake its core mandate and activities during the year under review. Some of the activities undertaken during the financial year ending 30th June 2020, included formulation and implementation of new strategic plan 2019 - 2023 that succeeded the one of 2014 – 2019. During the plan period, EPZA has developed specific strategies to address the expansion/improvement of industrial infrastructure, employment creation, diversification of products & markets, institutional strengthening capacity and revenue generation.

In the year under review, EPZ performance on value of investment, sales to domestic and expenditure by EPZ firms on purchases of local goods and services saw an upward trend. For instance, EPZ investment rose by 3.1% while expenditure on local goods and services rose by 0.5% in the year ended June 2020.

On the other hand, exports and total sales contracted by 4.0% and 2.9% respectively in the year ending June 2020 compared to similar period of 2019. EPZ program relies on international trade for most of the inputs/raw material and also market for finished goods. Hence, unprecedented disruption of global supply chain resulting from the Corona Virus disease when it was declared a global pandemic affected EPZ program performance.

The implementation of the SME under the EPZ program has improved export business environment of small-scale indigenous enterprises. The number of EPZ firms with fully local ownership stands at 37.2% from 37.5% during the previous year. This performance contributed towards Kenya's economic growth in 2019.

As one way of improving EPZ program operating environment, EPZA conducted stakeholder consultative Forum in November 2019 starting with enterprises in apparel sector. The forum brought together government agencies that facilitate trade to deliberate on issues affecting the EPZ apparel sector and by extension the EPZ program. This engagement is expected to be enhanced so as to assist EPZ program achieve its objectives and also play its role in attainment of the Big Four Agenda and Vision 2030.

The safety and health of our employees and the communities in all the EPZ zones in has been our top priority. Since the outbreak of Covid-19 we have implemented several measures across our operations to prevent the spread of infection as well as working alongside government to deliver a coordinated response to the response. We are constantly reviewing the situation to ensure we are responding effectively to all health, operational and financial concerns.

The growth of the EPZ program is expected to improve in 2020 owing to the easing of the Covid 19 pandemic through continued government support and enhanced EPZ investment promotion activities.

APPRECIATION:

I would like to express my sincere appreciation to the Board Members, Management and the staff for their dedication which has enabled the growth of the program. The growth has also been possible through the continued support of our investors and other stakeholders.

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Finally, I would like to thank the government for the continued support, guidance and a good working relationship.

Chairman

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REPORT OF THE CHIEF EXECUTIVE OFFICER

I am delighted to present to you EPZ Authority's Annual report and financial statements for the year ended 30th June, 2020.

Operating Results

The net operating profit of Kshs 5.80 million was realized during the period ending 30 June 2020 compared to the net profit of Kshs 1.52 million reported in the FY2018/19

Authority's operating deficit increased in FY 2019/20 to stand at a Ksh.10.54 million from a deficit of Ksh. 1.30 million reported in the financial year ending 30 June 2019. This adverse performance is mainly attributable to increase of operating expenses following the impact of higher impairments on the dollar denominated receivables due to currency volatility caused by uncertainties with regard to the impact of Covid-19 which lead to devaluation of the shilling.

Appropriation-in-Aid was Kshs 418.64 million for FY2019/20 as compared to the Kshs 476.54 million registered in FY2018/2019. During the financial year 2019/2020, the Authority received a total of Kshs 100 million recurrent grant and Kshs 470 million development grant from Government of Kenya (GOK) representing a 100% allocation of the grant received.

The Authority's recorded a favorable budget variance for expenditure in the period under review. The total operating expenditure was Kshs 528.99 million against a budget of Kshs 130.59 million representing a 1% saving.

Performance of EPZ Programme

In the financial year ended June 2020, most performance indicators exhibited mixed performance. This is mainly attributed to the adverse impact of Covid -19 pandemic on the EPZ program. The number of gazetted zones rose to 75 in 2020 from 72 in 2019.

Export and total sales value decreased by 4.0% and 2.9% to stand at Kshs 70,577 million and Kshs 75,178 million respectively in 2020 from Kshs 73,563 million and Kshs 77,435 million in 2019. Sales to the domestic market stood at Kshs 5,788 million in 2020 from Kshs 3,872 million in 2019. The increase could be attributed to the window provided by the government to EPZ firms, to sales 100% of their production to domestic market during the pandemic period.

Direct Employment contracted to 52,598 persons in June 2020 from 60,733 persons in 2019. The contraction was occasioned by scaling down of operations by some firms due to the pandemic. Recovery of lost employment caused by the pandemic and creation of additional jobs within the program is a priority activity of EPZA in the post Covid -19 era.

Cumulative investment for operating enterprises and zones in the form of machinery, equipment, funds and assets invested stood at Kshs 109,097million from Kshs 105,762 million in 2019 representing an increase of 3.1 %.

Imports decreased by 0.7% to stand at Kshs 33,482 million from Kshs 33,744 million in 2019. Expenditure on local goods and services increased by 0.5% in 2020 to stand at Kshs 30,675 million from Kshs 30,508 million recorded in 2019. This translate to an average of Kshs 2,556 million being injected into the economy by EPZ firms monthly in the year ended June 30, 2020 compared to Kshs 2,542 million in the previous year. These resources go to the

Export Processing Zones Authority
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payment of local workers' salary /wages, local supply of inputs/consumables, electricity, telecommunication, water, rent, transport, among others, which at the end day stimulate demand and growth of the domestic economy. These expenditures explain growth in areas surrounding EPZ zones in their respective geographical locations and beyond.

Significance of EPZ Program to National Economy

Export Processing Zones contribution to the national economy has been rising steadily over the years. This contribution became more significant with the coming into effect of AGOA, in the year 2000.

In 2019, the export processing zones contribution to the total manufacturing sector employment accounted for 17.09% from 16.41% posted in the year 2018.

In the year under review, EPZ contribution to manufacturing sector output stood at 3.00% in year 2019 from 3.21% registered in the previous year.

EPZ exports to total Kenya exports stood at 11.49% in 2019 from 11.78% in the year 2018.

Contribution to Gross Domestic Product (GDP) at market price of the economy averaged 0.33% over the years.

Growth in performance of EPZ program increases its contribution to national economy. However, annual revision of various national performance indicators influences EPZ contribution. A case in point is the manufacturing sector employment whose figures were revised to 347,900 persons for year 2019 from 307,592 persons captured in Economic Survey 2019.

Operational Challenges

The performance of the program would have been enhanced if certain negative factors had not impacted the EPZ program.

Cost of doing business is still an issue affecting performance of the EPZ investors. Inadequate supply of water to Athi River zone has necessitated firms to obtain the commodity at an inflated rate, hence adversely affecting their operations and performance. There has been Government directive of transporting goods by Standard Gauge Railway (SGR) from Mombasa port to Inland Container Depot (ICD) Nairobi. This is a positive measure; however, delays and increased costs have been experienced because containers have to be transported by trucks from ICD to the factories. It is therefore prudent that they be given an option to choose whichever mode of transport is convenient for them.

EPZ Agro processing enterprises have been facing inadequate supply of the raw materials especially the macadamia nuts. The situation has been aggravated by the emergence of brokers in the sector which have interfered with pricing and availability of these raw materials.

Pharmaceuticals firms operating within the EPZ program encounter lengthy product registration/approval process by relevant agencies. This has been compounded by lack of harmonized standards within the region and in Africa. In addition, firms which sell to the local market face numerous taxes and levies which make their product uncompetitive as their peers operating within the Customs territory have an edge as they enjoy zero rate preference.

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Lack of affordable funds has been a challenge to EPZ investors especially the small enterprises, hence made them unable to meet their operational obligations on a timely basis.

EPZ firms are constraint by limited East African Community (EAC) market to only 20% of their total production. This is an important market and especially with South Sudan having joined it. Thus, to encourage expansion of existing firms and new companies, the cap should be increased.

Poor infrastructure in rural areas where some EPZ zones/enterprises are located has made it difficult for the product to reach port of export in a timely manner especially flowers and vegetables. Consequently, the firms face loses, increase cost of production and reduce their competitiveness.

At the global level, inward looking policy trends as witnessed by United Kingdom opting out of the European Union while USA is focusing on domestic policy. This is affecting exports from Kenya because these markets are likely to be protected.

Way forward/required support

Diversification of products eligible under AGOA. Extension of AGOA with effect from October 2015 to September 2025 provided an opportunity to promote other products for export to the US market.

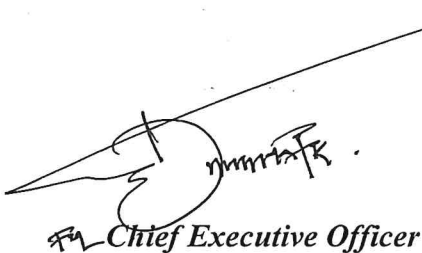
Improve market access to the EAC: EPZ firms are constrained by limited EAC market to only 20% of their total export. This is important market and especially with South Sudan having joined it.

EPZA to continue marketing EPZ products in international exhibitions as well as identifying export markets through research;

Encourage EPZ Agro processing firms to subcontract farmers to ensure availability of raw materials. This will also assist in dealing with emergence of brokers who destabilizes the industry like what is unfolding in the macadamia sub sector;

Increase the level of domestic sales to 70% for EAC partner states and tax based on imported content;

Allow EPZ firms the flexibility to choose mode of transport for goods destined upcountry



Chief Executive Officer

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CORPORATE GOVERNANCE STATEMENT

Corporate Governance Practices

The Board is committed to maintaining a high standard of corporate governance practices and devotes considerable effort to clarify and formalize best practices. The Authority is controlled by the Board of Directors who are committed to maintaining a high standard of corporate governance practices and devotes considerable effort to identify and formalize best practices.

The Board

The Board is currently comprised of 14 members whose biographical details are provided in the Board of Directors and Senior Management section of this annual report. Day to day operations of the Authority is delegated to the management led by the Chief Executive Officer. The management is closely monitored by the Board and is accountable for the performance of the Authority as measured against the corporate goals and targets set by the Board in the Authority's Performance Contract.

The Authority provides information on its operations to the Board and on a yearly basis organizes a Board and Management retreat to enable the Board meet with senior management so as to gain better understanding of the workings of the Authority and the general EPZ programme. The Board has in place a board charter that was revised and adopted in August, 2015.

The positions of Chairman and Chief Executive Officer of the Authority are separate to ensure a clear distinction between the Chairman's responsibility to manage the Board and the Chief Executive Officer's responsibility to manage the Authority's affairs. The division of responsibilities between the Chairman and the Chief Executive Officer is clearly established and set out in writing.

PRACTICES OF THE BOARD

Board Responsibilities

The basic responsibility of the Board members is to exercise their best judgment and to act in a manner that they reasonably believe to be in the best interest of the Authority and its stakeholders. In discharging that obligation, the members should be entitled to rely on the honesty and integrity of the Authority's management, staff and its external professional advisors and auditors.

Board Meetings

The Board meets regularly, at least four times a year at quarterly intervals and holds special meetings as and when the Board thinks appropriate. During the Financial year 2019/2020, 6 quarterly meetings and 8 special meetings were held. Notices of at least 14 days were issued to the Directors, minutes of Board meetings prepared by the acting Corporate Secretary with details of decisions reached and resolutions passed by the Board. The Board members play an active role in participating at the Authority's meetings through contribution of their professional opinions and active participation in discussions.

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CORPORATE GOVERNANCE STATEMENT (Continued)

The attendance record of each of the Directors during the financial year is as follows: -

Meetings attended/held during the Financial Year

Name of Director	Board Meetings/ Special Meetings (14)	Finance and Staff Board Committee (7)	Strategy, Investments & Special Projects Committee (16)	Board Audit Committee (4)	Board HR and Admin Committee (41)
Mr. Paul Gicheru	14	N/A	N/A	N/A	N/A
Ms. Betty C. Maina Ms. Doris Githua*	14	6	10	N/A	24
Dr. Lydia Ndirangu	3	1	2	2	N/A
Mr. Stanley Kagera	14	4	4	3	39
Mr. Walter Kamau	12	N/A	14	4	N/A
Mr. Laban Onditi Rao	3	N/A	4	2	2
Ms. Eva Buyu Msando	12	3	10	N/A	4
Mr. Benson Chacha	6	2	1	2	34
Dr. Moses Ikiara Pius Rotich* Donna Atieno*	8	5	12	N/A	N/A
Hon. Kisoï Munyao	14	3	15	4	16
Mr. John Masaba	6	N/A	5	1	2
Dr. Regina Mwatha	8	3	N/A	1	35
Mr. John Kamama	7	N/A	5	1	8
Ms. Christine Atieno	7	2	5	1	4
Mr. Frank Walukwe	4	1	N/A	N/A	N/A
Mr. George Makateto	3	1	4	N/A	8
Mr. Stephen Odua	2	2	4	N/A	4
Mr. Henry Obino	N/A	N/A	N/A	N/A	1

*Representatives of Board Members

Board Committees

To effectively discharge its mandate, the Board has established committees with specific terms of reference. This is in order to ensure the operational efficiency and that specific issues are being handled with relevant expertise. The Board has appointed Committee members with requisite skills and competence to discharge allocated responsibilities. In the event that a committee lacks specific skills within its membership, the Board may with the approval of the oversight body, co-opt skilled non- Board members to serve on the Committee, provided the Chair of the Board is not co-opted member or Chair. The Board also has the mandate to rotate Board members between Committees.

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The Board remains collectively responsible for the decisions and actions taken by any committee. The committees only perform tasks delegated to it by the Board and are not to exceed the authority or powers of the Board.

CORPORATE GOVERNANCE STATEMENT (Continued)

The committees report to the Board deliberations made during committee meetings through the Chair of the respective committee for the ratification and adoption by the Board.

BOARD COMMITTEE MEMBERSHIP FINANCIAL YEAR 2018/2019

Finance Committee		
Chairperson	Frank Ochieng Walukwe	Private Sector
	Mr. Stanley Maina Kagera	Representing Principal Secretary/The Treasury
	Ms. Doris Githua	Representing Principal Secretary/Ministry of Industrialization and Enterprise Development
	Dr. Moses Ikiara	Managing Director, Kenya Investments Authority
	Ms Eva Buyu Msando	Private Sector
	Chief Executive/EPZA	Member
Board Audit Committee		
Chairman	Mr. Walter Kamau	Kenya Association of Manufacturers
	Hon. Kisoi Munyao	Private Sector
	Dr. Lydia Ndirangu	Central Bank of Kenya
	Christine Atieno Otieno	Private Sector
Strategy Investments and Special Projects Board Committee		
Chairman	Hon. Kisoi Munyao	Private Sector
	Dr. Moses Ikiara	Managing Director/ Kenya Investments Authority
	Mr. Walter Kamau	Kenya Association of Manufacturers
	Mr. Stanley Maina Kagera	Representing Principal Secretary/The Treasury
	Ms. Doris Githua	Representing Principal Secretary/Ministry of Industrialization and Enterprise Development
	Mr. Frank Ochieng Walukwe	Private Sector
	Ms. Christine Atieno Otieno	Private Sector
	Mr. John Kamama Mbugua	Private Sector
	Dr. Lydia Ndirangu	Private Sector
	Chief Executive/EPZA	Member
Human Resource and Administration Board Committee		
Chairman	Mr. John Kamama Mbugua	Private Sector
	Ms Doris Githua	Representing Principal Secretary/Ministry of Industrialization and Enterprise Development
	Mr. Stanley Maina Kagera	Representing Principal Secretary/The Treasury
	Ms. Eva Buyu	Private Sector
	Ms. Christine Atieno Otieno	Private Sector
	Chief Executive/EPZA	Member

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Board Induction and Continuous Skills Development

The Board provides new Board member with an effective induction programme in order to familiarize them with their responsibilities as directors, general principles of corporate governance and Board practices. The induction programme also provides the Board member with an orientation of the organization, strategic plans, financial status and policies, risk management, compliance programmes and the Code of Conduct and Ethics.

The Board also ensures that members of the Board attend at least two days of professional development.

Board Remuneration

Board members are remunerated for their services in accordance with the prevailing relevant legislative provisions and/or guidance from the relevant Government Authority.

Board Performance

The Board conducts an annual evaluation to appraise its performance. This evaluation will be carried out in accordance with the Board Evaluation Tool developed by the State Advisory Committee (SCAC).

Board and Management Succession

The board will put in place a succession plan for both the Board and management and review the same regularly.

Governance Audit

The Board should ensure that a governance audit of the organization is undertaken on an annual basis. The purpose of the governance audit is to ensure that the organization conforms to the highest standards of good governance

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MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

The Authority posted an operating gain of Kshs 5.7 million, a rise by 275%% from a gain of Kshs 1.52 million realized in the previous financial year. This gain is attributed to cost-cutting measures as well as non-monetary transactions arising from recognition of deferred income from government grant.

Authority's total revenue rose to 8% from 5% during the year to close at Kshs 518.64 million up from Kshs 479.812 million reported in FY 2018/19. Appropriation-in-Aid was Kshs 418.64 million (2018/2019, Kshs 476.54 million) while the recurrent grant from the government of Kenya (GOK) totalled Kshs 100 million (2018/19, Kshs 3.27 million). The Authority also received Kshs 470.00 million (FY 2018/19, Kshs 820.00 million) in development grant.

Total expenditure rose by 9% during the year to settle at Kshs 528.99 million from 481.11 reported in FY 2018/2019.

EPZA's Compliance with Statutory Requirements

During the FY 2019/20, the Authority did not have any major non-compliance issue that was likely to expose it to potential contingent liabilities. However, the Authority has had ongoing disputes and defaults that may potentially impact negatively on the overall performance.

These include:

Prolonged contestation that EPZA is not a registered water supplies entity. This is likely to reduce water sales contribution should it be ruled out that the Authority should not supply water outside Athi River Zone.

There is a litigation case regarding the ownership of a parcel of land Oloolotikoshi/Kitengela/70. The case is in Law Court and the Authority has to wait/await for the outcome. The land was valued at 2.25 million as at 30 June 2014.

Included in the trade and other receivables is an outstanding debt of Kshs 9.92 million relating to ex-staff (former CEO and Accounts Assistant). The Ethics and Anti-Corruption Commission is pursuing the case and Authority is awaiting the outcome. The debt has also been forwarded to the Authority's external debt collector.

Key Projects and Investment Decisions the Authority is implementing

The Authority is currently implementing two major capital projects namely; the textile Centre of Excellence at Athi River and Industrial Leather Park at Kenanie. These projects are wholly funded by GoK.

Major Risks Facing EPZA

The Authority's activities expose it to a variety of financial risks, market risks (including foreign exchange risk, fair value interest rate risk, cash flow interest risk and price risk), credit risks and liquidity risks. The Authority's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its performance.

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Credit Risk

Included in the rent and license trade receivables are doubtful debts and bad debts. These debts have proved to be uncollectable and adequate provision for the doubtful debts should be made as well as writing-off bad debts.

EPZ program is experiencing the negative effects of the novel coronavirus (COVID 19). This is due to the disruption of the global supply chain input shortages causing some manufacturing enterprises to suspend operations. The government-imposed curfew and implementation of the work-from-home system to contain the spread of the coronavirus has also reduced productive working hours negatively affecting businesses of EPZ enterprises.

The challenges facing EPZ firms may lead to reduced sales /no sales negatively affecting revenues. The firms' capacity to pay financial obligations to the Authority when they fall due may be impaired increasing the Authority's credit risk.

Liquidity Risk

Doubtful Debt and Bad Debt categories are unlikely to be collected and this poses a liquidity risks to the financial operations of the Authority.

Authority's Appropriation-in-Aid is 81% of the Authority's revenues. The slowed investment appetite from foreign and local investors due to Coronavirus pandemic and has presented downside risk on the projected cash inflows.

The Authority has recorded delays in payment from its clients with some clients requesting for reduction of prices of services, waivers and extension of their credit period. Lack of adequate cash flows will increase the Authority's liquidity risk which may result to disruption of the Authority's operations.

Capital Risk

The Authority is currently implementing two major capital projects namely; the textile Centre of Excellence at Athi River and Industrial Leather Park at Kenanie. These projects are wholly funded by GoK. There continuity is largely dependent on continued government funding and timely disbursement of funds by the government.

Currency Risk.

Sixty percent (60%) of the budget A-in-A is denominated in US dollars. The foreign exchange market has recently experienced some volatility largely due to uncertainties with regard to the impact of Covid-19 and a significant strengthening of the US dollar in the global markets.

According to Central Bank Indicative Exchange Rates, the Kenyan shilling has slumped to its lowest levels in the past two years as the shilling was selling at 106.52 against the US dollar on 30th June, 2020. Any appreciation / depreciation of the reporting currency (KSHS) will affect the cash flows emanating from those transactions.

The Authority uses the Central Bank of Kenya (CBK) daily mean rate for conversation of the foreign currency transactions.

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Other Financial Risks.

Over Expenditure

Focus on current year only with no anticipation of future circumstances may have a negative impact on financial sustainability. Shortsighted policies often cannot be maintained in the long term and there is a likelihood of over expenditure on budget lines. The Authority uses multi-year planning for development projects to avoid imminent problems or recurrent consequences of capital spending not foreseen. The Authority also monitors proposed expenditure against the budget before approval is granted to incur expenditure.

Misuse of public funds

Likelihood of delay in surrender of advanced imprest by staff within stipulated time may lead to misuse of such funds and lose of public funds. To discourage such and to ensure proper accounting of imprest, the advanced amounts are always fully recovered from the staff salary.

Material Arrears in Statutory/Financial Obligations

Delayed disbursement and reduction in development grant has led to the incompleteness of the ongoing projects (textile Centre of Excellence at Athi River and Industrial Leather Park at Kenanie). This exposes the Authority to possible litigations by the contractors/ suppliers for delay to make payments for the works done.

The Authority's Financial Probity and Serious Governance Issues

The Authority had neither known financial improbity as reported by internal audit/Board audit committee, external auditors, or other National Government Agencies providing oversight nor serious governance issues among the Board or member of the Board and top management including conflict of interest as at 30th June, 2020.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

In order to realize the impact of EPZA existence in areas of our jurisdiction, the EPZ Authority works with various stakeholders towards realizing the objective of identifying and offering help in deserving needy areas in the community. Despite the country and the world at large being affected by the Covid-19 pandemic during 3rd and 4th Quarters, EPZ Authority undertook two CSR activities for the financial year ending June 2020.

➤ **The Association for Physically Disabled of Kenya**

The Authority sponsored The Association for Physically Disabled of Kenya by purchasing special seats worth ksh. 48,000.00 for usage by children with cerebral palsy.

➤ **4th Annual Kaptagat Tree Planting Exercise 2020**

In the spirit of giving back to the community, the Authority donated Ksh. 50,000.00 was donated to National Environment Trust Fund (NETFUND) towards support and participation of the 4th Annual Edition of the Kaptagat Forest Tree Planting Exercise

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REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2020 which show the state of the EPZ Authority's affairs.

Principal activities

The principle activities of the EPZA are promotion and facilitation of export-oriented investments and the development of an enabling environment for such investments as stipulated in the EPZ Act Cap 517.

Results

The results of the Authority for the year ended June 30, 2020 are set out on pages 1 to 27

Directors

The members of the Board of Directors who served during the year are shown on pages viii to xi.

Dividends/Surplus remission

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. The EPZ Authority Provisional draft Annual Financial Statement indicate that EPZA made a surplus of Kshs. 5,892,634. However, the Audit on the Financial Statements has not commenced, once Audit is complete, 90% of the Amount will be remitted to the Consolidated Fund.

Auditors

The Auditor General is responsible for the statutory audit of the Export Processing Zones Authority (EPZA) in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board

CORPORATE SECRETARY
Export Processing Zones Authority

Date.....

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STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of the EPZA, which give a true and fair view of the state of affairs of the EPZA at the end of the financial year/period and the operating results of the EPZA for that year/period. The Directors are also required to ensure that the EPZA keeps proper accounting records which disclose with reasonable accuracy the financial position of the EPZA. The Directors are also responsible for safeguarding the assets of the EPZA.

The Directors are responsible for the preparation and presentation of the EPZA's financial statements, which give a true and fair view of the state of affairs of the EPZA for and as at the end of the financial year (period) ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the EPZA; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the EPZA's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and the State Corporations Act. The Directors are of the opinion that the EPZA's financial statements give a true and fair view of the state of EPZA's transactions during the financial year ended June 30, 2020, and of the EPZA's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the EPZA, which have been relied upon in the preparation of the EPZA's financial statements as well as the adequacy of the systems of internal financial control.

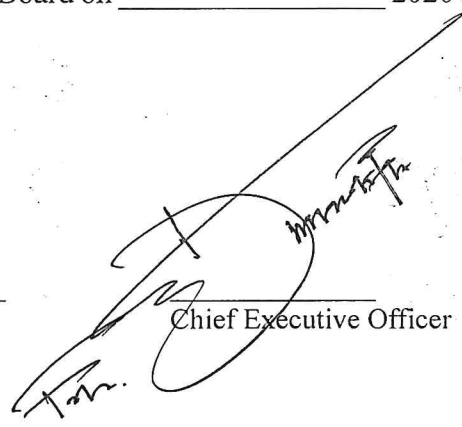
Nothing has come to the attention of the Directors to indicate that the EPZA will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The EPZA's financial statements were approved by the Board on _____ 2020 and signed on its behalf by:

Chairman of the Board

Director



Chief Executive Officer

REPUBLIC OF KENYA

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HEADQUARTERS
Anniversary Towers
Monrovia Street
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON EXPORT PROCESSING ZONES AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Export Processing Zones Authority set out on pages 1 to 34, which comprise the statement of financial position as at 30 June, 2020, and statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Export Processing Zones Authority as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Export Processing Zones Authority Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Lack of Ownership and Valuation of Property, Plant and Equipment

The statement of financial position and as disclosed in Note 22 to the financial statements reflects property, plant and equipment balance of Kshs.11,945,670,389 as at 30 June, 2020. The following issues were noted:

- i. Included in property, plant and equipment balance of Kshs.11,945,670,389 are two parcels of land Ref: LR. No. Ololoitokoshi/Kitengela/61 and 70, measuring two hectares with a book value of Kshs.2,250,000 acquired through Gazette Notice Nos.2802 and 2803 of July, 1991. However, the Authority had not processed and obtained ownership documents as at 30 June, 2020.

- ii. The Authority acquired land L.R No.337/2917 measuring 0.08 Ha at purchase cost of Kshs.6,500,000 in 2015/2016. However, the Authority had not processed and obtained ownership documents as at 30 June, 2020.
- iii. The Authority has not valued its assets for the last eight (8) years. This is contrary to Paragraph 49 of the International Public Sector Accounting Standard (IPSAS) No 17 on Property, Plant and Equipment which provides for revaluation of property plant and equipment every three or five years.
- iv. In addition, The Ministry of Water and Irrigation Development sunk two boreholes on EPZA land in 2007. The boreholes were handed over to the Authority without formal documentation. However, the boreholes have not been recognized as part of the assets of the Authority.

Consequently, the accuracy, completeness, existence, ownership valuation and fair statement of the property, plant and equipment balance of Kshs.11,945,670,389 as at 30 June, 2020 could not be confirmed.

2.0 Misclassification of Directors Expenses

The statement of financial performance and as disclosed in Note 7 to the financial statements reflects employee cost of Kshs.323,405,933 as at 30 June, 2020. Included in this amount is Kshs.4,866,166 directly attributed to board expenses wrongly classified under employees' cost.

Consequently, the employees' costs are overstated by the amount of Kshs.4,866,166 while the Directors expenses are understated by the same amount.

3.0 Double Payment of Transfer Allowance

Review of the personal allowance's ledger on transfer allowances revealed that the Authority paid an amount of Kshs.348,343 to four officers in arrears for the transfers relating to the financial year 2018/2019 during the year under review. However, review of the employee cost ledger indicated that the Authority had paid an amount of Kshs.369,787 as transfer allowances for the same employees. The amount of over payment has not been recovered at the time of the audit.

Consequently, the payment of Kshs.348,343 during the year under review was irregular and not a proper charge to public funds.

4.0 Unsupported Payment of Deposits for Legal Cases

The financial statement for the period under review reported legal expenses of Kshs.18,989,764. Review of the legal cases during the year under review revealed the following:

- i. The Authority engaged a law firm to represent it in the ELC Miscellaneous application No.48 of 2019 between London distillers Limited Vs Export Processing Zone Authority. The firm requested for a deposit of Kshs.35,380,000 with Kshs.12,500,000 payable to a Senior Counsel on account of taking instructions to lead the firm.
- ii. The Authority engaged a law firm to represent it in petition No.15 of 2019 in respect of Export Processing Zone Authority Vs Nairobi Water and Sewerage Company Limited & 3 others. The firm requested for a deposit of Kshs.52,787,250 inclusive of taxes with Kshs.25,000,000 payable to a Senior Counsel on account of taking instruction to lead the firm.

The process of negotiating the fees started once the deposits were paid. Management did not provide evidence on how the engagement of the Senior Counsel was arrived at. Further, Management did not provide evidence of the Attorney General's approval before the engagement of the firms offering legal services.

Consequently, the payment of the advance deposits of Kshs.35,380,000 and Kshs.52,787,250 was irregular and not a proper charge to public funds.

5.0 Unremitted Pay-As-You-Earn (PAYE)

Review of statutory deductions revealed that the total PAYE deductions Kshs.61,741,442 in respect of employees and another Kshs.5,110,719 in respect of the Board of Directors allowances and casual staff. However, Management did not provide for audit the schedule of the PAYE deductions from the salary arrears, final dues and gratuities, employees who were previously on suspension and/or interdiction.

In view of the foregoing, the accuracy of the unremitted Pay-As-You-Earn could not be confirmed.

6.0 Long Outstanding Trade Receivable and Other Receivable

The statement of position reflects trade and other receivables balance of Kshs.642,498,032. As reported in the previous year audit report, included in the trade and other receivables balance is an amount of Kshs.10,875,448 in respect of advances, outstanding Imprest and salary advances issued to the former staff of the Authority. The balance includes Kshs.8,690,786 being salary advance of Kshs.7,709,867 and imprest of Kshs.980,919 issued to the former Chief Executive Officer without approval from the board of Directors. The amount has remained outstanding and Management has not demonstrated efforts made to recover the amount.

Consequently, the recoverability of the long outstanding trade and other receivable amount of Kshs.10,875,448 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Export Processing Zones Authority

Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Issues

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has indicated that the issues have remained unresolved as Parliament has not met to deliberate on the same).

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1.0 Uncompleted Decommissioning of Dumpsite and Construction of Other Civil Works

The Authority awarded tender for decommissioning of dumpsite and construction of other civil works at Athi-River EPZ at a contract sum of Kshs.150,260,710 with a commencement date of 21 September, 2017 and a completion date of 20 June, 2019. The civil works included construction of a swimming pool and a mini golf course. The Authority has made payments of Kshs.31,810,320 against 20% of works completed as at the time of the audit. The following issues were noted;

- i. Report on feasibility study on recommending the decommissioning of the dumpsite was not availed for audit review. Further, Management had not identified an alternative dump site and dumping was still being done at the same site.
- ii. The contract included construction of a swimming pool and a mini golf course but omitted changing rooms which are a necessity for such facilities to operate.
- iii. Physical verification revealed that works had stopped and the contractor was not on site.

Consequently, value for money has not been realised on the for decommissioning of dumpsite and construction of other civil works including construction of a swimming pool and a mini golf course.

2.0 Un approved Contract Variation on the Construction of Kenya Leather Park Internal Access Roads and Civil Works

The Authority awarded the contract for the construction of Kenya Leather Park internal access roads and civil works at a contract price of Kshs.146,111,497. The work was to commence on 26 September, 2016 and be completed on 25 September, 2017 but later extended to 31 December, 2018. The Authority introduced additional work for box culvert and construction of temporary holding ponds and varied the contract upward by Kshs.26,075,000. This was contrary to Section 139 of the Public Procurement and Assets Disposal Act, 2015 which requires that the contract variation be approved by the tender committee.

Consequently, Management was in breach of law.

3.0 Delayed Completion of the Construction of New Industrial Sheds

The Authority awarded tender for the construction of 43,832 square meters of new industrial sheds at a contract price of Kshs.1,367,710,473. The works were to commence on 1 February, 2015 and be completed on 31 August, 2015 as per the initial contract agreement which was later extended to 31 December, 2018. The contract varied upward by Kshs.267,710,473. However, the work had not yet been fully completed at the time of our audit in May, 2021 and the authority to vary the contract was not provided for audit verification.

Consequently, value for money has not been realised in the Implementation of the contract.

4.0 Delayed Completion of the Construction of 7.5 Kms Long Trunk Sewer for Phase II Lot 3

The Authority awarded for the construction of 7.5 Kms long Trunk Sewer for Phase II Lot 3 at Athi-River Textile Hub at a contract sum of Kshs.213,278,865. The commencement

date as per the contract was 13 February, 2017 with revised completion date of 30 April, 2019. However, the project had not been completed due to delays in getting relevant approval from other government agencies.

Consequently, value for money has not been realised in the Implementation of the contract.

5.0 Delayed Completion of the Construction of Procurement Store

The Authority awarded a contract for construction of procurement store at a contract sum of Kshs.1,913,348. The work was to commence on 1 December, 2017 and to be completed by 31 July, 2018 as per the contract agreement. The Authority paid the contractor an amount of Kshs.648,499 as an advance payment who abandoned the site after being paid. Review of the project's file revealed that the contractor had no financial capacity to undertake the project raising doubt on whether due diligence had been done before awarding of the contract.

The Authority later awarded another contract for the same project at a contract price of Kshs.624,363 for the works which had not completed by the initial contractor. However, as at the time of audit in May, 2021, the project was still incomplete.

Consequently, value for money has not been realised in the Implementation of the contract.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

Internal Control Weaknesses in Repairs and Maintenance of Motor Vehicle Management

Review of motor vehicle records during the audit of the year under audit revealed control weaknesses which included defective speedometer, work tickets which had not been

updated as well as unauthorized details of travel. Lack of controls over use of assets will lead to loss and misuse of resources

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and the Board of Directors

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but

is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Authority to cease to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Authority to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

14 February, 2022

Export Processing Zones Authority
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For the year ended June 30, 2020

II. STATEMENT OF FINANCIAL PERFORMANCE

STATEMENT OF FINANCIAL PERFORMANCE			
FOR THE YEAR ENDED 30 JUNE 2020			
	Notes	2019-2020	2018-2019
		Kshs	Kshs
Revenues			
Revenue from non-exchange transactions	6a	147,827,235	66,730,538
Revenue from exchange transactions	6b	370,816,941	413,081,444
Total revenue		518,644,176	479,811,982
Expenses			
Employee costs	7	323,405,933	326,192,385
Board expenses	8	16,972,420	14,572,931
Administrative expenses	9	32,429,853	22,050,458
Other operating expenses	10	119,373,250	81,485,751
Depreciation	11	36,810,017	36,808,217
Operating Expenses		528,991,472	481,109,742
Operating Deficit/(Surplus)		(10,347,296)	(1,297,760)
Other Items			
Foreign Exchange Loss/(Gain)	12	16,239,931	2,818,207
Sub Total		16,239,931	2,818,207
Surplus (Deficit) for the Period		5,892,634	1,520,447

The notes set out on pages 6 to 31 form an integral part of the Financial Statements

Export Processing Zones Authority
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For the year ended June 30, 2020

III. STATEMENT OF FINANCIAL POSITION

STATEMENT OF FINANCIAL POSITION			
AS AT 30 JUNE 2020			
		2019-2020	2018-2019
		Kshs	Kshs
ASSETS			
Current Assets			
Cash and Cash Equivalents	13	702,176,320	907,133,977
Trade Receivables and Other Receivables	14	642,498,032	606,130,301
Inventories	15	7,897,907	8,091,841
Sub Total		1,352,572,259	1,521,356,120
Non-current assets			
Property, plant and equipment	22	11,945,670,389	11,279,542,342
Biological assets	16	150,122,342	150,122,342
Sub Total		12,095,792,731	11,429,664,835
TOTAL ASSETS		13,448,364,990	12,951,020,954
LIABILITIES			
Current liabilities			
Trade and Other Payables	17	360,243,163	307,318,483
Unearned Rental Income	17	274,293,875	265,573,601
Sub Total		634,537,039	572,892,084
Non-current liabilities			
Customer Deposits	18	190,974,610	183,047,686
Deferred Income	19	5,683,362,737	5,221,851,202
Sub Total		5,874,337,347	5,404,898,888
TOTAL LIABILITIES		6,508,874,386	5,977,790,972
NET ASSETS		6,939,490,604	6,973,229,983
Reserves			
Revaluation Reserves	20a	6,728,206,312	6,728,206,312
Accumulated surplus	20b	211,284,292	245,799,671
TOTAL NET ASSETS & LIABILITIES		6,939,490,604	6,974,005,983

George Makateto

Ag. Chief Executive Officer

Sign.....

Date.....

CPA Denis Kinyua

Manager, Finance & Accounts
ICPAK Member No:12041

Sign.....

Date.....

Paul Gicheru

Chairman, EPZA

Sign.....

Date.....

Export Processing Zones Authority
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IV. STATEMENT OF CHANGES IN NET ASSETS

STATEMENT OF CHANGES IN NET ASSETS
For the year ended 30 June 2020

	Notes	Revaluation Reserves Kshs	Accumulated Surpluses Kshs	Total Kshs
Balance as at July 1, 2018 (a)		6,728,206,412	234,949,052	6,963,154,464
Deficit for the period	20	-	1,520,447	1,520,447
Restatement of accumulated surplus		-	8,554,172	8,554,172
Transfers to accumulated surplus (b)	20	-	10,074,619	10,074,619
Balance as at 30 June 2019 (a+b)		6,728,206,412	245,023,671	6,973,229,983
Balance as at July 1, 2019 (a)		6,728,206,412	245,023,671	6,973,229,983
Surplus for the period	20	-	5,892,634	5,892,634
Restatement for prior-year items		-	16,161,297	16,161,297
Surplus remittance to treasury			(55,793,311)	(55,793,311)
Transfers to accumulated surplus (b)	20	-	(33,739,379)	(33,739,379)
Balance as at 30 June 2020 (a+b)		6,728,206,412	211,284,292	6,939,490,604

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V. STATEMENT OF CASHFLOWS AT 30 JUNE 2020

	Notes	2019-2020 Shs	2018-2019 Shs
A			
Cash flows from operating activities			
Receipts			
Application Fees	6a	1,453,673	1,398,125
Government Recurrent Grants	6a	100,000,000	3,270,456
Licence Fees	6a	46,373,563	44,203,790
Rental Income	6b	235,297,749	222,484,145
Sale of Water (Net of Cost)	6b	85,760,636	132,596,480
Other Incomes	6b	49,758,555	58,000,818
Total Cash flows from operating activities		518,644,176	461,953,815
Payments	7,8,9,10		
Compensation of Employees		323,405,933	326,192,385
Goods and Services		168,775,522	118,109,140
Total Cash outflows from operating activities		492,181,455	444,301,525
Changes in Working Capital Adjustments			
Trade Receivables & other receivables	14	(36,367,731)	40,283,639
Inventories	15	193,934	29,341
Trade & other Payables	17	(61,644,955)	(34,275,520)
Total Working Capital Adjustments		(97,818,752)	6,037,460
Net Cash Flows from Operating activities		(71,356,031)	23,689,750
B			
Cash flows from Investing activities			
Purchase of Property, Plant Equipment & Intangible Assets	23	(598,340,166)	(635,102,339)
Taxes Paid			
Total Cash outflows from Investing activities		(598,340,166)	(635,102,339)
C			
Cash flows from financing activities			
Development Grant Received	19	470,000,000	820,000,000
Total Cash flows from financing activities		470,000,000	820,000,000
Net (decrease)/increase in cash and cash equivalents		(199,696,197)	202,549,951
Cash and cash equivalents at start of the Year		901,872,517	699,322,566
Cash and cash equivalents at end of Year	13	702,176,320	901,872,517

The notes set out on pages 6 to 31 form an integral part of the Financial Statements.

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS			
	Final Budget 2019-2020 Kshs	Actual on Comperable basis 2019-2020 Kshs	Performance difference 2019-2020 Kshs
	Revenue		
Application Fees	2,000,000	1,453,673	(546,327)
Licence Fees	55,000,000	46,373,563	(8,626,437)
Rental Income	232,106,000	235,297,749	3,191,749
Water sales	85,044,237	85,760,636	716,399
Other Incomes	48,200,000	49,758,555	1,558,555
Government grant (Recurrent)	100,000,000	100,000,000	-
Total income	522,350,237	518,644,176	(3,706,061)
Expenses			
Personnel Emoluments	309,211,010	293,690,128	15,520,882
Goods, Utilities, Supplies & Services	5,500,000	5,116,532	383,468
Communication Supplies & Services	3,000,000	2,541,658	458,342
Investments Promotion Expenses	10,640,000	6,510,725	4,129,275
Domestic travel & Subsistence	8,220,000	6,644,950	1,575,050
Printing & advertising, Information supply & services	7,300,000	6,859,727	440,273
Rental of produced assets	8,500,000	6,141,298	2,358,702
Training Expenses	4,000,000	1,526,730	2,473,270
Hospitalities Supplies & services	4,500,000	4,616,996	(116,996)
Board Allowances, Training and Benchmarking	17,600,000	16,972,420	627,580
Insurance costs	37,500,000	36,692,327	807,673
Specialized materials and supplies	7,500,000	6,843,403	656,597
Office general supplies	6,000,000	5,828,975	171,025
Fuel, Oil and Lubricants	6,240,000	4,993,377	1,246,623
Other Operating expenses	41,139,227	77,826,722	(36,687,495)
Maintenance - Vehicles and Other Transport	2,200,000	2,424,642	(224,642)
Maintenance - Other Assets	3,800,000	6,950,846	(3,150,846)
Depreciation (Consumption of Fixed Capital)	39,500,000	36,810,017	2,689,983
Total Operating Expenditure	528,350,237	528,991,472	(6,641,235)
Other Items			
Foreign Exchange Loss	-	(16,239,931)	
Total Expenditure	528,350,237	512,751,541	(10,347,296)
Deficit for the period	-	5,892,634	

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Notes to the Budget

Revenue

The Authority Managed to generate Kshs. 518.64 million against the revenue target of Kshs. 522.35 million.

This shortfall was attributed to the adverse performance of water sales in the FY 2019/2020 which was caused by low volumes from the water supplier, Nairobi Water and Sewerage Company.

The Authority did not manage generate the expected application and Licence fee. The shortfall was as a result of most investors under EPZ program being at the development stage.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Export Processing Zones Authority (EPZA) is established by and derives its authority and accountability from EPZ Act. The EPZ Authority is wholly owned by the Government of Kenya and is domiciled in Kenya. The EPZA's principal activity is the promotion and facilitation of export-oriented investments and the development of an enabling environment for such investments as stipulated in the EPZ Act Cap 517.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the EPZA's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the EPZA.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 ADOPTION OF NEW AND REVISED STANDARDS (Continued)

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

Standard	Effective date and impact:
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only). Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.

iii. Early adoption of standards

The entity did not early-adopt any new or amended standards in year 2018.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

i. Revenue from Non-Exchange Transactions

Fees

The Authority recognizes revenues from fees when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably. The Authority's revenue from Non-Exchange Transactions comprises of licence and application fees.

Transfers from other Government Entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.

ii. Revenue from Exchange Transactions

Rendering of Services

The Authority recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

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Where the contract outcome cannot be measured reliably, revenue is recognized only to the incurred are recoverable.

Sale of Goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the Authority.

Interest Income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

b) Budget information

A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actual as per the statement of financial performance has been presented under section XV of these financial statements.

b) Taxes

Current income tax

The Authority is Zero rated in its tax status. Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income.

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

c) Property, Plant and Equipment (PPE)

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

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Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

d) Leases

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Authority.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

e) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The useful life of the intangible assets is assessed as either finite or indefinite.

f) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

Raw materials: purchase cost using the weighted average cost method

Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Authority.

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g) Provisions

Provisions are recognized when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Authority expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Authority does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent assets

The Authority does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

h) Nature and Purpose of Reserves

The Authority creates and maintains reserves in terms of specific requirements. Surplus made during the year is credited to the accumulated surplus reserve while deficit is debited to the accumulated reserve at the end of financial year.

i) Changes in Accounting Policies and Estimates

The Authority recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

j) Employee benefits Retirement Benefit Plans

The Authority operates defined contribution retirement benefit scheme for its employees while employees who are on contract qualify for gratuity upon end of the contract. The Authority and all its employees also contribute to the appropriate national Social Security Fund, which are defined contribution schemes.

A defined contribution plan is a pension plan under which the Authority pays fixed contributions into a separate entity. The Authority has no legal or constructive obligations to

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pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Authority pays contributions to publicly or privately administered plans on a mandatory, contractual or voluntary basis. The Authority has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

k) Foreign Currency Transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

l) Related Parties

The Authority regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Authority, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers.

m) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

n) Comparative Figures

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

o) Subsequent Events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2019.

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the EPZA's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the

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end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The EPZA based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the EPZA. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

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6. REVENUE

	2019-2020 Kshs	2018-2019 Kshs
6a) Revenue from Non-Exchange Transactions		
Application Fees	1,453,673	1,398,125
Licences fees	46,373,563	44,203,790
Recurrent Grant (GoK)		
Unconditional Grant		
State department of Industry	100,000,000	3,270,456
Non Monetary Revenue-Defferred Income	-	17,858,167
Sub Total	147,827,235	66,730,538
6b) Revenue from Exchange Transactions		
Water Sales	85,760,636	132,596,480
Rental Income	235,297,749	222,484,145
Interest from-On-Call Deposit	24,778,035	14,061,477
Other Incomes	24,980,521	43,939,342
	370,816,941	413,081,444
Total Revenue	518,644,176	479,811,982

7 EMPLOYEE COSTS

	2019-2020 Kshs	2018-2019 Kshs
Basic Salaries and Wages	157,912,528	142,531,942
Personnel Allowances	109,421,621	120,740,938
Medical Benefit	29,715,805	31,538,394
Social Contributions	26,355,979	31,381,110
Other Staff Welfare	-	-
Total Employees Cost	323,405,933	326,192,385

8 BOARD EXPENSES

	2019-2020 Kshs	2018-2019 Kshs
Directors Emoluments	13,674,008	12,096,931
Chairman Honoraria	1,037,000	776,000
Boards Committees Expenses,Conferences and Seminars	2,261,411	1,700,000
Total Board Expenses	16,972,420	14,572,931

9 ADMINISTRATIVE EXPENSES

	2019-2020 Kshs	2018-2019 Kshs
9a Repairs and Maintenance		
Property	4,973,175	2,407,504

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	Equipment	1,504,530	419,360
	Vehicles	2,424,642	2,741,648
	Other	473,142	101,585
	Sub Total	9,375,488	5,670,097
9b	Contracted services		
	Contracted Professional Services	2,138,173	151,441
	Consultancy Fee	5,170,021	10,000
	Contracted Guards	15,040,620	15,522,920
	Audit fee	684,000	696,000
	sub Total	23,054,365	16,380,361
	Total Administrative expenses	32,429,853	22,050,458
10	OPERATING EXPENSES	2019-2020	2018-2019
		Kshs	Kshs
	Goods Utilities Supplies & Services	5,116,532	4,706,943
	Investment Promotion	6,510,725	10,346,988
	Communication Supplies & Services	2,541,658	3,373,250
	Domestic Travel & Other Transport Costs	6,644,950	7,419,058
	Printing Advert Info Supply & Service	6,859,727	3,477,950
	Rental of Produced Assets	6,141,298	9,792,429
	Training Expenses	1,526,730	1,610,586
	Hospitality Supplies and Services	4,616,996	2,780,851
	Insurance Costs excluding medical	6,976,522	3,991,149
	Specialised Materials and Supplies	6,843,403	4,757,019
	Office General Supplies	5,828,975	3,870,704
	Fuel Oil & Lubricants	4,993,377	4,560,684
	Legal Expenses	18,989,764	4,037,212
	Other Operating Expenses	35,782,593	16,760,895
	Total Operating Expenses	119,373,250	81,485,751
11	DEPRECIATION	2019-2020	2018-2019
		Kshs	Kshs
	Buildings	8,359,583	8,359,583
	Computers and Printers	4,632,439	4,630,639
	Infrastructure	8,857,551	8,857,551
	Motor Vehicles & Other Moveable Equipment	9,730,358	9,730,358
	Office Equipment	3,005,862	3,005,862
	Office Furniture	2,224,223	2,224,223
	Total Depreciation	36,810,017	36,808,217

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12	FOREIGN EXCHANGE TRANSACTIONS	2019-2020	2018-2019
		Kshs	Kshs
	Loss/Gain on Foreign Exchange Transactions	16,239,931	2,818,207
		16,239,931	2,818,207

13	CASH AND CASH EQUIVALENTS	2019-2020	2018-2019
		Kshs	Kshs
	Current Account	272,277,829	481,760,679
	Others (Cash-in-Hand)	97,185	100,433
	Others (Accrued Interest)	1,765,914	1,765,914
	On-Call Deposits	370,000,000	370,000,000
	Staff Mortgage	58,035,391	53,506,951
	Total	702,176,320	907,133,977

a) **Detailed Analysis of the Cash and Cash Equivalents**

Current Accounts

NBK-Hill Branch (01001031540800)	11,445,424	(5,068,464)
NBK-Kitengela Water Deposit (010010315408010)	868,932	987,747
NBK-Government Dev Grants-Kitengela (01001089587000)	104,207,228	367,710,521
NBK-Sinking Fund Account-Kitengela (01001024633300)	8,257,787	8,257,787
KCB Bank - Moi Avenue (1101641797)	129,892,410	86,465,923
KCB Bank - Kitengela (1102736953)	1,189,418	6,271,296
KCB Bank - Kitengela (1102737380)	16,416,630	17,135,869
Sub- Total	272,277,829	481,760,679

b) **Cash in hand**

Petty Cash - Athi River Head Office	1,144	75,810
Petty Cash - Mombasa Office	60,000	12,166
Petty Cash-Kisumu Office	36,041	12,457
Sub- total	97,185	100,433

c) **On-Call Deposits**

NBK-Kitengela (014050895870000)	240,000,000	240,000,000
Kenya Commercial Bank	130,000,000	130,000,000
Accrued Interest - NBK	-	-

d) **Staff Mortgage**

Housing Finance Group (SD-200-0081210)	58,035,391	53,506,951
Accrued Interest-HFC/KCB	1,765,914	1,765,914
Sub- total	429,801,305	425,272,866
Grand Total	702,176,320	907,133,977

14 **TRADE AND OTHER RECEIVABLES**

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	2019-2020	2018-2019
	Kshs	Kshs
a		
Trade Receivables		
Trade receivables	666,942,626	604,328,583
Less: Impairment Allowance/Provisions	(72,825,004)	(45,219,952)
Total Trade Receivables	594,117,622	559,108,631
b		
Other Recievables		
Staff debtors Imprest	1,639,737	1,621,598
Staff debtors (medical)	427,700	427,700
Staff debtors (Advances)	9,305,985	9,253,849
Other Debtors	29,069,482	28,966,359
Prepayments	7,937,505	6,752,164
Total Other Receivables	48,380,410	47,021,671
Total Trade and Other Receivables	642,498,032	606,130,302
15		
INVENTORIES		
	2019-2020	2018-2019
	Kshs	Kshs
Inventory - Water (at Cost)	262,378	291,400
Stationary	5,178,411	5,585,959
Electrical Computer & Fire Accessories	2,457,118	2,214,482
Total inventories	7,897,907	8,091,841
16		
BIOLOGICAL ASSESTS		
	2019-2020	2018-2019
	Kshs	Kshs
Cost at the start of the year.	150,122,342	150,122,342
Additions during the year	-	-
Total Biological assets	150,122,342	150,122,342
17		
TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS		
	2019-2020	2018-2019
	Kshs	Kshs
Trade Creditors	15,041,965	24,377,875
Accruals	71,605,838	38,688,983
Sundry creditors	25,668,554	28,623,069
Retention Money (Contrators)	247,926,806	215,628,556
sub Total	360,243,163	307,318,483
17		
Unearned Income	274,293,875	265,573,601
Total Trade Payables and Other Payables	634,537,039	572,892,084

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18	REFUNDABLE DEPOSITS FROM CUSTOMERS	2019-2020	2018-2019
		Kshs	Kshs
	Rent Deposits	85,402,365	78,282,682
	Water Deposits	91,239,894	90,925,372
	Sewer Deposits	14,332,351	13,839,631
	Total deposits	190,974,610	183,047,686

19	DEFERRRED INCOME	2019-2020	2018-2019
		Kshs	Kshs
	At start of the Year	5,221,851,202	4,424,173,910
	Development Grant Received	470,000,000	820,000,000
	Adjustment	13,834,244	
	Less: Deferred Income Recognised in Current Year	(17,858,167)	(17,858,167)
	Defferred Income Recognised for Next Qtr 2019	(4,464,542)	(4,464,542)
	As at end of Year	5,683,362,737	5,221,851,202

20	RESERVES		
20a	Revaluation Reserves		
		2019-2020	2018-2019
		Kshs	Kshs
	Revaluation Reserves	6,728,206,312	6,728,206,312
	Accumulated Reserves at start of the Year	245,023,671	234,949,051
	Surplus remittance to treasury	(55,793,311)	
	Current Year Deficit	5,892,634	1,520,447
	Adjustments for prior-Year items	16,161,297	8,554,172
20b	Accumulated Reserves at end of the Year	211,284,292	245,023,671
	Total Reserves	6,939,490,604	6,973,229,984

21 TRANSACTIONS WITH RRELATED PARTIES

Nature of Related Party Relationships

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Entities and other parties related to the entity include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management, their associates and close family members.

EPZA's other related parties include:

- i) The National Government;
- ii) The Ministry of Industry, Investment and Trade (Parent Ministry);
- iii) The National Treasury;
- iv) Key Management;
- v) Board of Directors.

21a	Key Management Compensation	2019-2020	2018-2019
		Kshs	Kshs
	(i) Management Compensation (Salaries & Short-term Benefits)		
	Compensation to the CEO (provision)	5,656,695	5,656,695
	Compensation to Key Management	78,750,885	78,750,885
	Sub Total Mangement compesation	84,407,580	84,407,580
	ii) Directors' remuneration		
	Board Allowances	13,674,008	12,096,931
	Chairman Honoraria	1,037,000	776,000
	Boards Committees Conferences and Seminars	2,261,411	1,700,000
	Sub-Total	16,972,420	14,572,931
	Total	101,380,000	98,980,511
<hr/>			
21b(i)	Transfers from Departments of Industrialization		
	i) Development Grant	2019-2020	2018-20
		Kshs	Ks.
	Quarter 1	-	-
	Quarter 2	-	-
	Quarter 3	300,000,000	410,000,000
	Quarter 4	170,000,000	410,000,000
	Sub-Total	470,000,000	820,000,000
<hr/>			
21b(ii)	ii) Recurrent Grant		
	Quarter 1	25,000,000	834,300
	Quarter 2	25,000,000	784,242
	Quarter 3	25,000,000	834,300
	Quarter 4	25,000,000	817,614
	Sub -Total	100,000,000	3,270,456
	Total Grant Received	570,000,000	823,270,456

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24	Contingent Liabilities	2019-2020	2018-2019
		Kshs	Kshs
	Court cases against the EPZA	1,075,581,836	1,075,581,836
	Total	1,075,581,836	1,075,581,836

21	Cash absorbed from operations	2019-2020	2018-2019
	Description	Kshs	Kshs
	Reconciliation of profit before income tax to cash generated from operations		
	Surplus before tax	5,892,634	1,520,447
	Adjustments for:		
	Depreciation	36,810,017	36,808,217
	Foreign exchange loss/gain	(16,239,931)	(2,818,207)
	Accrued Interest Income	-	-
	Non-Monetary (Income Grant amortization)	-	(17,858,167)
	Gain on disposals of property plant & equipment	-	-
	Changes in Current Year's Deferred Income	-	-
	Cash from operations before changes in Working capital	26,462,721	17,652,290

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23. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings & Fixtures	Infrastructure	Motor Vehicles	Furniture	Computers	Office Equipment	Work-In-Progress	Total
Cost	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
At 30 July 2018	5,455,260	844,305	1,304,257	68,421	25,227	37,704	30,057	3,007,804	10,773,036
Additions	-	3,704	6,594	-	138	341	3,776	620,549	635,102
Adjustment	-	-	-	-	-	-	-	36,569	36,569
Transfer	-	-	262,760	-	-	-	-	(262,760)	-
At 30 June 2019	5,455,260	848,009	1,773,373	68,421	25,365	38,046	33,833	3,402,162	11,644,469
Cost									
At 1 July 2019	5,455,260	848,009	1,773,373	68,421	25,365	38,046	33,833	3,402,162	11,644,469
Additions	-	3,466	19,284	-	2,119	2,130	20,121	551,220	598,340
Adjustment	-	11,652	(2,220)	-	2,224	4,389	519	-	16,563
Transfer	-	-	-	-	-	-	-	-	-
At 30 June 2020	5,455,260	863,127	1,790,437	68,421	29,708	44,564	54,473	3,915,541	12,221,531
Depreciation and impairment									
At 1 July 2018	-	49,207	52,652	48,823	9,390	32,698	9,472	-	202,243
Depreciation charge for the year	-	8,360	8,858	9,730	2,224	4,631	3,006	-	36,808
Disposals	-	-	-	-	-	-	-	-	-
Transfer/adjustment	-	-	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-	-	-
At 30 June 2019	-	57,567	61,509	58,554	11,614	37,328	12,478	-	239,051
Depreciation and impairment									
At 1 July 2019	-	57,567	61,509	58,554	11,614	37,328	12,478	-	239,051
Depreciation charge for the year	-	8,360	8,858	9,730	2,224	4,632	3,006	-	36,810
Impairment	-	-	-	-	-	-	-	-	-
Adjustment	-	-	6,020	(6,020)	-	-	-	-	-
At 30 June 2020	-	65,926	76,387	62,265	13,839	41,961	15,484	-	275,861
Net book values									
At 30 June 2020	5,455,260	797,201	1,714,050	6,156	15,870	2,603	38,989	3,915,541	11,945,670
At 30 June 2019	5,455,260	790,442	1,785,750	9,867	13,751	717	21,355	3,202,400	11,279,542

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. TRANSFERS FROM MINISTRIES, DEPARTMENTS AND AGENCIES

Name of the Entity Sending the Grant	Amount Recognized to Statement of Comprehensive Income	Amount Deferred Under Deferred Income	Amount Recognised in Capital Fund.	Total Grant Income During the Year	30-Jun-20
	Kshs	Kshs	Kshs	Kshs	Kshs
Ministry of Industry, Trade and Cooperatives	100,000,000	470,000,000	-	570,000,000	570,000,000
Total	100,000,000	470,000,000	-	570,000,000	570,000,000

25. FINANCIAL RISK MANAGEMENT

The EPZA's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Authority's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Authority does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The Authority's financial risk management objectives and policies are detailed below:

i. Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

Included in the in the trade receivables (Rent, licence and water) is Kshs 234.13 million and Kshs 261.19 million categorized as Doubtful Debts and Bad Debts respectively. These debts have proved to be uncollectable and adequate provision for the doubtful debts should be made as well as writing-off bad debts.

(ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Authority's directors, who have built an appropriate liquidity risk management framework for the management of the Authority's short, medium and long-term funding and liquidity management requirements. The Authority manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The Authority's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the Authority's exposure to market risks or the manner in which it manages and measures the risk.

a) Foreign currency risk

The Authority has transactional currency exposures. Such exposure arises through rendering of services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of receipt is done using the prevailing exchange rate.

The Authority manages foreign exchange risk from future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

b) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The Authority's interest rate risk arises from bank deposits. This exposes the Authority to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

Sensitivity analysis

The Authority analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

26 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Description	2019-2020	2018-2019
	Kshs	Kshs
Court cases against the EPZA Total	1,175,581,836	1,075,581,836
	1,175,581,836	1,075,581,836

27 CAPITAL COMMITMENTS

Description	2019-2020	2018-2019
	Kshs	Kshs
Authorized and Contracted for	4,871,980,922	4,871,980,922
Total	4,871,980,922	4,871,980,922

28 SURPLUS REMISSION

Provisional draft Annual Financial Statement indicate that EPZA made a surplus of Kshs. 5,892,634. Once Audit is complete, 90% of the Amount will be remitted to the Consolidated Fund.

29 EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting and non- adjusting events after the reporting period.

30 ULTIMATE AND HOLDING ENTITY

The Export Processing Zones Authority is a State Corporation/ or a Semi- Autonomous Government Agency under the Ministry of Industry, Trade and Cooperatives, State department for Industrialization. Its ultimate parent is the Government of Kenya.

31 Currency

The financial statements are presented in Kenya Shillings (Kshs).

VI. APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved. The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and Designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	Land As previously reported included in property, plant and equipment balance of Kshs 9,476,115,000 as at 30 June 2016 are two parcels of land Ref .LR. No. Olooloitikoshi/Kitengela/61 and 70, measuring 2 hectares and valued at Kshs 2,250,000. Although the parcels of land were acquired and gazetted through Gazette notice Nos.2802 and 2803 of 5 July 1991, the Authority had not obtained the title documents as at 30 June 2014.	(i) The Authority is in the process of obtaining ownership documents for LR. No. Olooloitikoshi/Kitengela/61 measuring approx. 1 hectare. The land was surveyed and beacons placed on the ground with the concurrence of the owner. The Authority is currently following up with the owner to formally transfer the land to EPZA. (ii) On the issue of ownership of LR. No. Olooloitikoshi/Kitengela/70 the matter is in court and the Authority is awaiting a Court's decision. As of now, the Authority has to wait for the outcome of the court case.	CEO and GM-Commercial & Technical Services.	Not Resolved	On going
2	Boreholes In 2007, the then Ministry of Water and Irrigation developed two (2) boreholes on EPZA land, one at the disputed parcel of land next to PCEA Church Kitengela Township and the other next to the EPZA police post. The management has indicated that ownership of	i) The Authority is currently liaising with the Ministry of Environment, Water and Natural Resources who dug and equipped the borehole at the elevated water tank to have the bore-hole's asset formally transferred to EPZA. Attached please find the relevant correspondence. ii) The Borehole next to EPZA police post is situated on EPZA land and ownership is further supported by implied and	CEO and GM-Commercial & Technical Services.	Not Resolved	On going

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)		Timeframe: (Put a date when you expect the issue to be resolved)
	<p>boreholes was handed over to the Authority without formal documentation and that the boreholes have been tested and confirmed to be economically viable. However, no evidence has been provided for audit review to confirm that the two boreholes have been valued and recognized as the assets of the Authority.</p> <p>In the circumstances, it has not been possible to confirm that the Property, Plant and Equipment balance of Kshs.9,476,115,000 as at 30 June 2016 is fairly stated.</p>	adverse possession over the years.				

3	<p>Trade and Other Receivables</p> <p>As previously reported, included in trade and other receivables balance of Kshs 548,866,000 as at 30 June 2016 is an amount of Kshs. 10,969,276 which relates to advances and outstanding imprests issued to ex-staff. The figure includes Kshs. 8,690,786 issued to former Chief Executive</p>	<p>The former CEO was dismissed and ordered to pay the Authority all outstanding monies. This matter was forwarded to Ethics and Anti-Corruption Commission and the former officer is under investigation pending conclusion.</p>	CEO	Not Resolved	<p>On-going.</p> <p>The former CEO's case will be dependent upon the EACC conclusion of the matter.</p>
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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)		Timeframe: (Put a date when you expect the issue to be resolved)
4	<p>Officer of the Authority. The former CEO disregarded the Government code of regulations (H10) on advance of salary which provides that an advance of not more than one month salary may be granted to an officer owing to circumstances beyond his/her control.</p> <p>It further provides that advance may be granted only when an officer has no other outstanding salary advance and should not be more than two within one year. The Authority's internal management policy also provides that in the absence of a written arrangement, recoveries of advance to staff should be done through the payroll which was contravened.</p> <p>Further by the former CEO using the Authority's senior officers approved and authorized salary advances and other forms of advances</p>					

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)		Timeframe: (Put a date when you expect the issue to be resolved)
5	<p>for himself without seeking approval from the Board of Directors. This was in total disregard of Government regulation and the Authority's staff manual governing salary advances.</p> <p>In addition, amount of Kshs.980,919 granted to him as imprest should have been surrendered within 48 hours after completion of assignment for which the imprest was issued. This amounts to violation of existing regulation and abuse of office by former CEO. Consequently, the accuracy and recoverability of trade and other receivables balance of Kshs.548, 866,000 as at 30 June 2016 could not be confirmed.</p>					

Chief Executive Officer..... Chairman of the Board.....

Sign..... Sign.....

Date..... Date.....

Guidance Notes:

- (i) Use the same reference numbers as contained in the external audit report

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VII. APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

Status of Projects completion

(Summarise the status of project completion at the end of each quarter, ie total costs incurred, stage which the project is etc)

DEVELOPMENT OF ATHI RIVER TEXTILE HUB and Leather Park at Athi River EPZ, Machakos County						
Project Status as at 30 June 2020						
Project in Order of Category, Priority and Justification	Contractor	Status	Estimated Project cost	Cumulative Expenditure as at 30 June 2020	Cumulative Outstanding Project Cost as at 30 June 2020	
On-Going Projects						
1	Construction of Phase II & Phase III new units of Industrial Sheds (183,832 Square Meters) at the Athi-River Textile Hub to host textile companies creating 100,000 new jobs	EPZA Tender No. 04/2014-2015 Contracted Party - China National Aero Technology International Corporation (CATIC) Location - Athi-River Textile Hub (Athi-River EPZ, Machakos County)	Large Industrial Sheds: 98% complete for 8 units in Cluster 2 & 3 - building works practically complete; Roofing completed; Civil works at 70% for Cluster 2 and 50% for Cluster 3; 90% complete for 8 units in Cluster 1 & 4 - building works practically complete; Roofing & Finishes nearing completion; Civil Works pending. SME Sheds 90% complete overall for 4 units and awaiting completion of civil works; 80% complete overall for remaining 4 units. Roofing & Finishes ongoing.	1,367,710,473	1,302,646,729	65,063,744

2	Construction of Phase II & Phase III new units of Industrial Sheds (183,832 Square Meters) at the Athi-River Textile Hub to host textile companies creating 100,000 new jobs Total Projected cost of new proposed tender for completion of civil works at EPZ Industrial sheds	June 2019 Tender No: EPZA/08/2018-2019 Contractor: Jilk Construction Ltd	Large Industrial Sheds: 98% complete for 8 units in Cluster 2 & 3 - building works practically complete; Roofing completed; Civil works at 70% for Cluster 2 and 50% for Cluster 3; 90% complete for 8 units in Cluster 1 & 4 - building works practically complete; Roofing & Finishes nearing completion; Civil Works pending. SME Sheds 90% complete overall for 4 units and awaiting completion of civil works; 80% complete overall for remaining 4 units. Roofing & Finishes ongoing.	391,906,649	385,329,216	6,577,433
3	Construction of 6 Kms of new Paved Roads (Lot 2)	EPZA Tender No. 02/2014-2015 Contracted Party - Aridlands Construction Co. Ltd. Location - Athi-River Textile Hub (Athi-River EPZ, Machakos County)	Ongoing 98% complete overall. Currently completing drainage and pedestrian pavements; Project Under Investigations	502,464,180	499,307,416	3,156,764
4	Roads (Lot 2 completion, repairs and maintenance of old roads)	EPZA Tender No. 26/2015-2016 Contracted Party - Aridlands Construction Co. Ltd. Location - Athi-River Textile Hub (Athi-River EPZ, Machakos County)	Ongoing 75% complete; Project under Investigations	170,072,981	139,982,270	30,090,711

5	Construction of 8.3 Kms of new Water Supply and Distribution Pipeline and 6,500 Cubic Meters Storage Tank	EPZA Tender No. 03/2014-2015 Contracted Party - Hirola Investments Ltd. Location - Athi-River Textile Hub (Athi-River EPZ, Machakos County)	Ongoing 98% complete. Currently addressing snags on water tank; Amount remaining relates to Retention	384,684,455	346,216,010	38,468,446
6	Branding, Communications and Marketing Consultancy	EPZA/RFP/02/2015-2016 Contracted Party - True North Associates & Transcend Media Group (TMG) Coverage - National, Regional & International	Ongoing 80% complete. New Brand Identity developed for EPZA and Kenya Leather Park. New Branding, Communication s & Marketing Strategy developed for EPZA	21,619,200	7,855,996	13,763,204
7	Partitioning, Fit-out and Equipping of Textile and Apparel Skills and Productivity Resource Center	EPZA Tender No. 27/2015-2016 Contracted Party - Charwins Ltd. Location - Athi-River Textile Hub (Athi-River EPZ, Machakos County)	Ongoing 65% complete;	20,330,875	17,516,030	2,814,846
8	Construction of 8 Km long Pre-cast Concrete fencing to upgrade security at the Athi-River Textile Hub	EPZA Tender No. 03/2016-2017 Contracted Party - Atticon Limited Location - Athi-River Textile Hub (Athi-River EPZ, Machakos County)	Ongoing 84% complete;	203,065,521	185,250,686	17,814,835
9	Construction of 7.5 Kms long Trunk Sewer for Phase II Lot 3 at Athi-River Textile Hub	EPZA Tender No. 03/2016-2017 Contracted Party - Dexterous Limited Location - Athi-River Textile Hub (Athi-River EPZ, Machakos County)	Ongoing 85% complete;	252,094,404	238,720,849	13,373,555
10	Decommissioning of dumpsite and Construction of Other Civil Works at Athi-River EPZ	EPZA Tender No. 12/2016-2017 Contracted Party - Marcann Contractors Co. Ltd. Location - Athi-River Textile Hub (Athi-River EPZ, Machakos County)	Ongoing 23% complete; Project Under Investigations	150,260,710	35,344,800	114,915,910

11	Feasibility Study, Business Case; Acquisition of land; Civil Works (Perimeter Fencing, Gate/Guard House, Road Works and Drilling of Borehole - Voi EPZ Textile Industrial Park	Initial Works	Potential land identified; Awaiting funding	1,000,000	346,000	654,000
12	Proposed construction of external ablution blocks & zone food kiosks at Athi River EPZ	Initial Works	Ongoing	5,000,000	155,262	4,844,738
13	Construction of perimeter wall at EPZA-Makadara plot (Mavoko) acquired as a Way-leave for Lot 1 Sewer line passage.	Initial Works	Ongoing	1,000,000	275,466	724,534
14	Renovation and refurbishment of Phase I Athi-River EPZ Industrial Sheds, SME Parks (Incubator 1 & 2), Zone Office	Initial Works	Ongoing	12,000,000	500,000	11,500,000
15	Construction of 5 (five) High level security watch towers at the Athi River zone and housing area @ Kshs. 250,000 each (Kshs. 1.25 Mn.); Construction of Five additional (5) electric masts for Athi River Zone (Kshs. 13 Mn.); Refurbishment and erection of security guard posts and washrooms (clinic gate, police gate, housing area	Contracted Electrical Match LTD	Ongoing	15,250,000	12,952,450	2,297,550

	gate, beacon ranch, High level water tank); construction of fire breaks and patrol roads along the perimeter fence (Kshs. 1 Mn.)					
16	Purchase and Installation of CCTV Cameras at Head Office Phase II (Kshs. 15 Mn.); CCTV Kinanie (3 Mn.); Installation of 13 Walkthrough Metal and hand held Detectors for EPZA Athi-River (6.5 Mn.) and Security & Safety (physical & Electronic) signages (1M); Smart Gate Access Control System and Fencing of EPZA HQ Buildings (Kshs. 10 Mn.)	Contracted Rimuco Enterprises Ltd	Ongoing	35,500,000	14,427,398	21,072,602
17	Drilling, equipping and housing of 4 boreholes at EPZA Athiriver zone to boost water supply at the Zone @ kshs 3 Mn. each and Treatment Plant at Kshs 8 Mn.	Contracted Transend Engineering Co Ltd	Ongoing	20,000,000	9,745,250	10,254,750
18	Purchase 2 no. 4x4 SUVs (28 Mn); 1 no. 4x4 Pickup (7Mn); 6no. Motorbikes (300,000); 1 no: 1 no. 22 seater Van (5M).	Initial Works	Ongoing	24,000,000	505,640	23,494,360
Total (Development of Athi-River Textile Hub)				3,577,959,448	3,197,077,468	380,881,981

VIII. APPENDIX III: INTER-ENTITY TRANSFERS

	ENTITY NAME:	Export Processing Zones Authority		
	Break down of Transfers from the State Department of Investment and Industry			
	FY 2019/2020			
a.	Recurrent Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		20/08/2019	25,000,000	FY 2019/2020
		18/10/2019	25,000,000	FY 2019/2020
		04/02/2020	25,000,000	FY 2019/2020
		26/06/2018	8,333,333	FY 2019/2020
		02/06/2020	8,333,333	FY 2019/2020
		29/06/2020	8,333,333	FY 2019/2020
		Total	100,000,000	
b.	Development Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		14/10/2019	150,000,000	FY 2019/2020
		04/03/2020	320,000,000	FY 2019/2020
		Total	470,000,000	

The above amounts have been communicated to and reconciled with the parent Ministry

Manager-Finance & Accounts
EPZ Authority

Head of Accounting Unit
State Department for Investment & Industry

Sign

Sign-----

IX. APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

The Authority had no transfers from other government entities during FY 2019/2020.

