REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

*Enhancing Accountability*

THE NATIONAL ASSEMBLY

DATE: 01 SEP 2021

DAY: WED

TABLED BY: LoMP

CLERK-AT THE-TABLE: S. Kalama

# REPORT

# OF

# THE AUDITOR-GENERAL

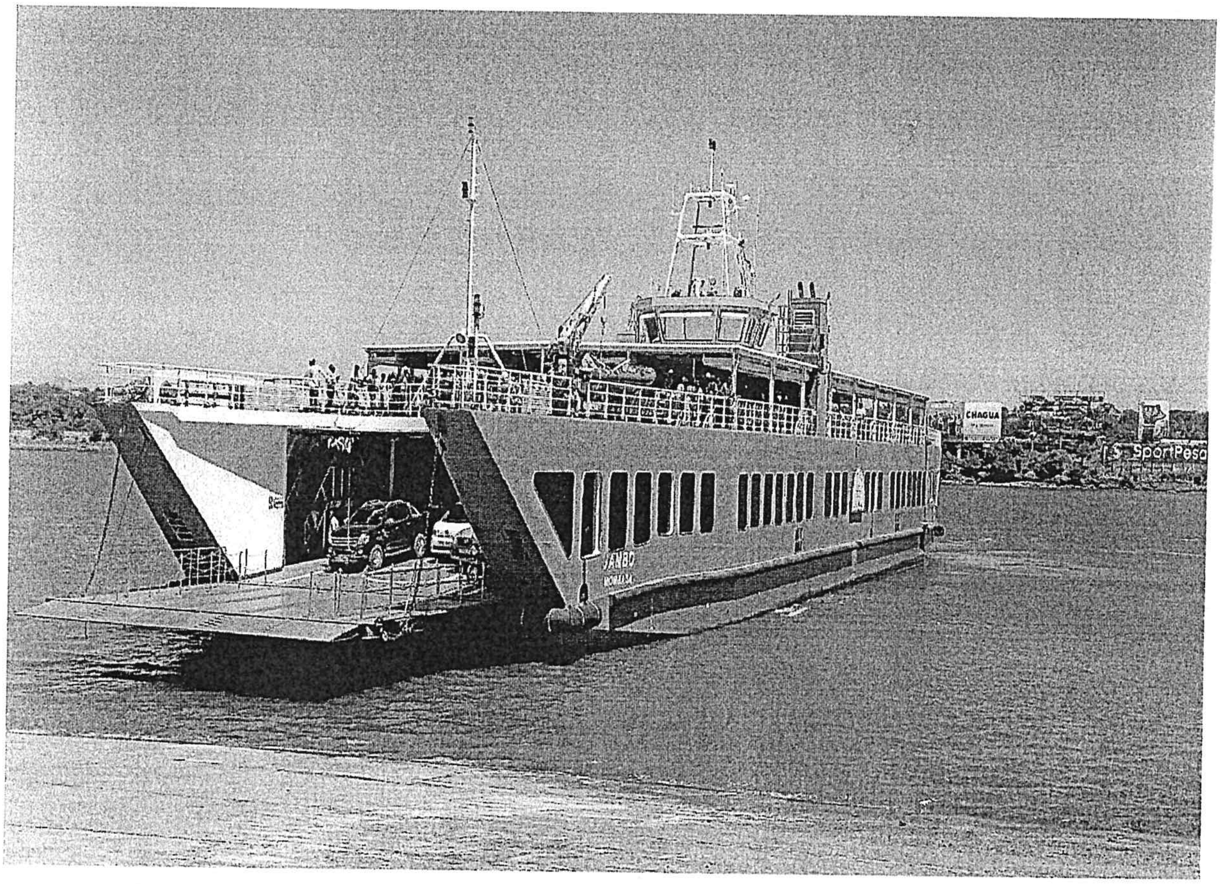
# ON

# KENYA FERRY SERVICES LIMITED

# FOR THE YEAR ENDED 30 JUNE, 2019

# KENYA FERRY SERVICES LIMITED

*Annual Report and financial statements for the year ended 30th June 2019*




# Annual Reports & Financial Statements for the year ended 30th June 2019

**Prepared in accordance with the Accrual Basis of Accounting Method under the International Financial Reporting Standards (IFRS)**

## CONTENTS

**KEY ENTITY INFORMATION AND MANAGEMENT**

**Background information**

Kenya Ferry Services Limited (KFSL) came into being in November 1989 after the Government took over the operation of the ferry services from the defunct Kenya Bus Services Ltd, which had indicated unwillingness to continue with operations.

The Government then mandated Kenya Ports Authority to run the services on its behalf. Kenya Ports Authority in turn changed one of its subsidiary companies (Bunty Estates Ltd) into Kenya Ferry Services Ltd and commenced operations on 1st November, 1989.

In 1998, the Government through National Assembly Sessional Paper No. 3 formalized the ownership of the Company by transforming the contributions of both the Government and Kenya Ports Authority into equity. Share capital increased from the initial Kshs. 2 million to Kshs.500 million. Today the Company is 80% owned by the Government of Kenya and 20% by Kenya Ports Authority.

The management of the Company is governed by the Companies Act of Kenya, the State Corporations Act among other relevant Acts. Kenya Ferry Services Ltd has a Board of Directors which is charged with the overall mandate of the Company.

**Principal Activities**

The principal activity of the Company is provision of ferry services to motorists and pedestrians at the Likoni and Mtongwe channels.

**Directors**

The Directors who served the company during the year/period were as follows:

| | | |
|---|---|---|
| Hon. Danson Mwazo (EGH) | Chairman | Appointed on 23/06/2019 |
| Hon Ramadhan Seif Kajembe(MGH) | Chairman | Retired on 23/06/2019 |
| Mr. Bakari Hamisi Gowa | Managing Director KFSL | Appointed on 01/07/2016 |
| Dr. Arch. Daniel Manduku | | |
| (Managing Director KPA) | Director | Appointed on 31/05/2018 |
| Ms. Rosina N Mruttu | Director | Re-appointed on 08/02/2019 |
| Ms. Naima A Amir (HSC) | Director | Appointed on 06/06/2018 |
| Ms. Omar Daula Mohamed | Director | Appointed on 06/06/2018 |
| Mr. Philip Ndolo | Director | Appointed on 08/02/2019 |
| Mr. Henry Rotich | CS National Treasury<br>(Alternate Mr. Daniel Ndolo) | Appointed on 15/5/2013 |
| Ms. Esther Koimett (MBS) | PS State Department of Transport<br>(Alternate Mrs. Geraldine Maingi) | Appointed on 06/06/2018 |

**KEY COMPANY INFORMATION (Continued)**

**Corporate Secretary**
Mr. Elijah Kitur
P.O Box 96242- 80110
Likoni

**Registered office**
Peleleza - Likoni
P. O. Box 96242 - 80110
Likoni, Mombasa

**Corporate Headquarters**
P. O. Box 96242 – 80110
Kenya Ferry Services HQ
Gaza Street - Peleleza
Likoni, Mombasa

**Corporate contacts**
Telephone: (254) 0723664000
E-mail: info@kenyaferry.co.ke
Website: www.kenyaferry.co.ke

**Corporate bankers**
National Bank (K) Ltd
Portway House Branch
P.O. Box 87770 – 80100
Mombasa- Kenya

**Independent auditors**
Auditor General
Kenya National Audit Office
Anniversary Tower, University Way
P. O. Box 30084 – GPO 00100
Nairobi, Kenya

**Principal Legal Advisors**

1. The Attorney General
   State Law Office
   Harambee Avenue
   P.O Box 4112
   City Square 00200
   Nairobi, Kenya

2. Company Secretary, (Elijah Kitur)
   Kenya Ferry Services Ltd
   Peleleza Likoni
   P. O. Box 96242 – 80110 Likoni, Mombasa

**THE BOARD OF DIRECTORS**

**Chairman**

Hon. Danson Mwazo EGH was born on 19th February 1956. He was appointed as Chairman of Kenya Ferry Services on 23rd June 2019 taking over from Hon. Kajembe whose term ended in 23rd June 2019. He has a Bachelors degree in Business Administration, Riara University, Higher Diploma in Marketing, Port Harcourt University Nigeria.

He has worked in different capacities with Pepsi Cola International & Coca Cola Company for over 20 years. His last posting as a Regional Manager, Eastern region – Lagos Nigeria was with Coca Cola Company. He has also served as a member of parliament, an assistant minister and a minister for tourism, Kenya.

**Chairman ( Retired 26th June 2019)**

Hon. Said Ramadhan Kajembe (MGH) was born on 3rd June 1944 and holds a Bachelor's degree in Business Administration (Corporate Strategy) from the European Business School Cambridge, England, Diploma in shipping (Stevedoring and Shore handling) He has extensive experience in shipping matters in large Corporations having worked for Landing & Shipping Co. East Africa and Kenya Ports Authority where he rose to the position of Assistant Superintendent Operations. He has also served as a distinguished politician in various capacities from 1966 to 2015.Hon. Kajembe takes over from Mr. Fondo whose term ended in November 2016.

**Managing Director**

Mr. Bakari Hamisi Gowa holds a Bachelor's degree in Education; he is a qualified Accountant with CPA (K), a qualified secretary with CPS (K), holds a diploma in CIPS, a diploma in IMIS and is currently pursuing MBA. He has over 15 years' experience in management and finance.

**Director**

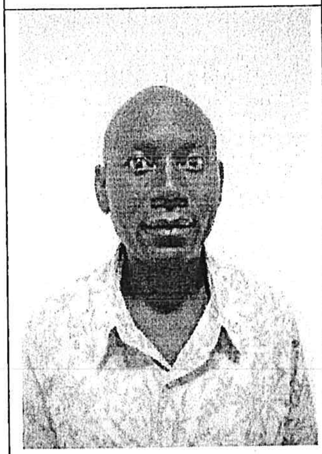
Dr. Arch. Daniel Manduku is the Managing Director Kenya Ports Authority. He holds Doctorate of Business Administration, Leadership and Change Management, Master of Business Administration (MBA), Strategy and BArch, Architecture, Honors from Jomo Kenyatta University of Agriculture and Technology. He is a corporate member of the Architectural Association of Kenya (AAK) and Institute of Construction Project Managers of Kenya. Prior to this appointment, Dr. Arch. Manduku was the National Construction Authority CEO.

**Director**

Mr. Henry K. Rotich was born in 1969. He is the Cabinet Secretary, The National Treasury and holds a Master's degree in Public Administration (MPA) from Harvard University USA, Master's degree in Economics and a Bachelor's degree in Economics both from University of Nairobi, Kenya. Prior to his elevation as Cabinet Secretary, Mr. Rotich was Head of Macroeconomics at the Ministry of Finance since March 2006. He also worked at Research Department of Central Bank of Kenya since 2004. Besides, Mr. Rotich has served in as Director of several boards of state corporations such as Insurance Regulatory Authority, Industrial Development Bank, Communications Authority of Kenya and Kenya National Bureau of Statistics.

**Director**

Ms. Esther Koimett is the Principal Secretary State Department of Transport. Prior to her appointment, Dr. Koimett served as an Investment Secretary in the National Treasury. She has also served as Permanent Secretary in the Ministry of Tourism and Information. She has over 25 years' experience in public service in Kenya including over 18 years in Investment Promotion, Privatization and Public Enterprise Reforms. She served as Director of Nairobi Stock Exchange Ltd. She also served as a Non- Executive Director of Safaricom Limited from May 24, 2005. Ms. Koimett holds Bachelor of Commerce and MBA degrees from the University of Nairobi.



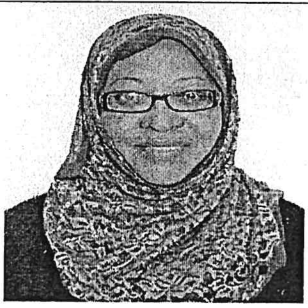
**Director ( Retired 05th November 2018)**

Mr. Cheya Gunga Ndurya was born in 1975 and is happily married. He holds accountancy qualifications and has extensive experience as an accountant in the area in education sector as a Finance Officer. He joined the board in October 2015.

**Director**

Ms. Rosina N Mruttu was born in February 1962 and holds Masters in Counseling Studies University Durham, Degree in Theology with International Faith Theological Seminary (IFTS),Post graduate diploma in Child Forensic Psychology at University of Leeds ,Higher diploma in Psychological Counseling ,Higher Diploma in Counselor Education and Supervision ,Diploma in Marriage and Family Counseling ,Diploma in Intensive Care Nursing Medical Training College (Nairobi),Diploma in Kenya Registered Nursing Kenya at Medical Training College (Nairobi) among others.

She has fourteen (14) years' experience in Training, Counseling, Supervision and curriculum development, Health, Psychology, Psychological debriefing, drug and substance abuse counseling, Disaster Preparedness and Management.

| | |
|---|---|
|  | **Director**<br>Ms. Daula Mohamed Omar is a former Managing Director of CIMITI. She holds a Bachelor's degree in Commerce, Diploma in International Air Transport Association (I.A.T.A), Diploma in Management (NEBS UK) among other professional qualifications and is currently pursuing a Master's of Science in Global Management. She has extensive experience in Sales & Marketing field in the private sector key among them new business development, customer relations and service, business prospecting and market analysis. She joined the Board of Directors on 6th June 2018. |
|  | **Director**<br>Ms. Naima A. Amir (HSC) is an experienced global relations professional and former Managing Director of Adventure Technology Company. Prior to this appointment, she worked at Postal Corporation of Kenya as Manager External Postal Affairs, International and Public Relations. She holds Bachelor of Arts in Sociology degree and Post Graduate Diploma (PGD) in Mass Communication, and PGD in Personnel Management & Industrial Relations. Ms. Naima A. Amir joined the Board of Directors on 6th June 2018. |
|  | **Director**<br>Mr. Philip Ndolo is an experienced Human Resource professional and holds Bachelor's Degree in Business administration from Washington International University, besides Higher National Diploma in Personnel Management and ILO Training from Cambridge Tutorial College. He is also exposed in cooperative affairs and a graduate of Cooperative College in Kenya. Mr. Ndolo is a member of Institute of Personnel Management Kenya, also served as Chairman of Hotels & Restaurants Authority (Presidential Appointee). He joined the Board of Directors on 8th February 2019. |

**MANAGEMENT TEAM**

| | |
|---|---|
|  | **Managing Director**<br>Mr. Bakari Hamisi Gowa holds a Bachelor degree in Education; he is a qualified Accountant with CPA (K), a qualified secretary with CPS (K), holds a Diploma in CIPS, Diploma in IMIS and is currently pursuing MBA. He has over fifteen years' experience in financial management. |
|  | **Human Resources and Development Manager**<br>Thomas Tuva Kenga has joined Kenya Ferry Services Limited from Technical University of Mombasa on the 4th May 2015 where he was the Head of Human Resources Department for over five years. An alumni of Moi University, University of Nairobi and Mombasa Polytechnic, Mr. Kenga's highest qualification is a Master's degree specializing in Human Resources Management. He is a full member of the Institute of Human Resource Management, Kenya. |
|  | **Company Secretary and Head Of Legal Services**<br>Mr. Elijah Kitur holds an LLB (Hons), is an advocate and a Certified Public Secretary CPS (K). He has eighteen years' experience and is a member of the Law society of Kenya and Institute of Certified public Secretaries of Kenya. |
|  | **Operations Manager**<br>Mr. Paul Koech holds a Bachelor's degree in Military Science from Egerton University. He also holds a Diploma in Certified Security Management Professional from ISMI (International Security Management Institute) UK and a certificate in Military Science from Egerton University. He is a member of ISMI and has over 14 years' experience in marine operations majorly drawn from Kenya Defence Forces (Kenya Navy). |
|  | **Finance Manager**<br>Mr. Kombo Rajab Kombo holds a Bachelor degree in Commerce (Accounting option); Executive Master's in Business Administration, he is a qualified Accountant with CPA (K), and a registered member of Institute of Certified Public Accountants of Kenya (ICPAK). He has over eighteen years' experience in financial management in both public and private sector. |

| | |
|---|---|
|  | **Head of Engineering**<br>Mr. Athmani Washenga holds higher national diploma in Electronics Marine (UK), diploma in Electrical Electronics Marine (UK). He is a specialist in electronics, fitting & turning, specialist in ships equipment all from UK. He is a member of Institute of Engineering Technologists & Technicians Registration Board, Kenya. He has forty two years working experience in marine environment, twelve years at Kenya Navy and thirty years in KFSL. |
|  | **Procurement and Supplies Manager**<br>Ms. Jennifer Cirindi holds a Bachelor degree in Education. She is a qualified procurement professional with MCIPS(UK) and holds a post graduate diploma in CIPS. She is a member of KISM and is currently pursuing MBA at Nairobi University in Operations Management. She has over 10 years' experience in supply chain management. |

**CHAIRMAN'S STATEMENT**

I am pleased to present the annual report and financial statements for the Company for the year ended 30th June 2019. The Company registered a surplus of Kshs 69 Million against a surplus of Kshs 43 Million realized in the previous year 2017/2018. The main contributing factor to this position was a 14% increase in income from operations from Kshs 494 Million in 2017/2018 to Kshs 566 Million in 2018/2019 and savings realised in staff costs and board expenses. On the other hand, the asset base of the Company improved from Kshs 5.5 billion in the year 2017/2018 financial period to Kshs 5.6 billion in the current year.

The government has a commitment to provide ferry services to pedestrians accessing the Company facilities. This comes in the form of grants and its level (how much is allocated) affects the Company's performance. During the year, the government allocated Kshs 493 million to supplement the recurrent budget whereas the development budget allocation was Kshs 350 million compared to the previous year's Kshs 506 Million and Kshs 490 Million respectively.

**Strategic issues**

**Acquisition of new ferry vessels**

Kenya Ferry Services Ltd entered into contract in 2015 with a Turkish Shipyard M/S Ozata Tersanecilik San ve Tic Ltd for Design, Construction, Delivery and Commissioning of Two New Passenger/Vehicular ferries. The first vessel (MV Jambo) has been delivered and is in use. The second vessel MV Safari's construction was stopped by the High Court following a dispute with the then appointed marine surveyor M/S Bonriz Surveyors. The case was dispensed with and the Company, parent Ministry MoTIHUDPW, Attorney General among others are engaged the shipyard in May 2019 and resolved the dispute that had arisen as a result of the injuction. The works on MV Safari have since resumed and the Company anticipates delivery of the second vessel MV Safari by January 2020.

The vessel MV Jambo has had a huge impact on the Company's traffic flow management since its commissioning on 07th August 2017 due to its large deck capacity to carry many vehicles and passengers at the same time. The additional vessel will enhance the service safety, reliability and efficiency at the channel and give room for scheduled maintenance and dry docking.

The Company has plans of replacing the old fleet that has become more costly to maintain i.e MV Nyayo, MV Kilindini and MV Harambee.

**Integrated Security Solution for Likoni**

The Company is concerned about the safety and security of the passengers, motorists, their property and Ferry assets. Due to the large numbers of passengers and motorists crossed daily (approx. 350,000), the channel has been identified as a soft spot for crime and terrorism among other threats. As part of implementing the Integrated Security Master plan during the quarter ended 30th June 2019, the Company completed the CCTV Surveillance Installation whereby a total of 160 No. cameras were installed on board all ferry vessels and ferry operation areas including offices at a cost of Kshs 100 Million. This shall help in surveillance of the ferry operations for seamless service delivery for customers and stakeholders.

As part of the implementation of the Integrated Security Masterplan, the Company invested in screening equipment installed at both sides of the channel (Walkthrough metal detectors 20 and luggage scanners 4). To further this, the Company intends to adopt a multi-agency approach that shall fast track implementation of the remaining components of the masterplan. This shall include investment in motor vehicle scanners.

**Likoni Cable Express Project**

The Company received an unsolicited bid from a private firm (Ms Trapos Ltd) for provision of cable car service at the channel as an alternative crossing method. A preliminary feasibility study conducted by Arup consultancy firm reveals that the project is viable. The proposal under Public Private Partnership has been vetted and approved by KFSL Board and management given the go ahead to negotiate with the project proponents. The Company is represented in the negotiations by the PPP node, and other stakeholders such as the parent Ministry MoTIHUDPW, Attorney General's Office and National Treasury PPP unit.

Company received Cabinet approval for the Likoni Cable Express proposal under PPP arrangement. The Project Agreement was signed in the month of October 2018 and currently the Project Company (Likoni Cable Express) and KFSL are engaged in clearing Conditions Precedent to the Contract. It is envisioned that the ground breaking for the Cable Car Project shall be done by November 2019.

The Likoni Cable Express Project shall be one its kind in the region (East and Central Africa) and the first one in Kenya with a capacity of evacuating 11,000 passengers per hour. This shall be a form of alternative crossing at Likoni which shall supplement the existing ferry services. At the same time, the project shall be a tourist attraction for both local and international tourists as well as create direct and indirect employment opportunities for Kenyans. This project is expected to generate Kshs 50 Million in revenue per year to KFSL.

**Integrated Marine Transport System (IMTS)**

In a bid to diversify its operations and achieve financial sustainability, the Company conceptualized the above project with an objective of offering ferry services along the Coastal towns i.e. Kwale, Mombasa, Kilifi, Malindi Lamu and associated islands. This project shall comprise components/deliverables such as regular ferry services with landing on the Mombasa Island, Mainland North, and South & West via use of water buses/taxis, cruise vessels around Mombasa and floating hotels.

The Company forwarded the concept papers to the PPP unit for approval through the Parent Ministry and is awaiting approval

The project is expected to impact on transformation of the hinterland along the above route areas/towns whereby landing points shall be developed, decongesting vehicular and human traffic on the roads, promotion of local and domestic tourism, and improve the general well-being of the people as a result of the numerous benefits of the project.

**Financial Performance for the year**

The Company realized a surplus of Kshs 69 million in the current year compared to 43 Million in the prior year. The Company's capital base improved from equity of Kshs 5.5 Billion in the year 2017/2018 to Kshs 5.6 Billion in the current year. This is attributed to improved deferred income in the form of capital grants received at a total of Kshs 350 million from the government during the current financial year 2018/2019.

KFSL depends on two streams of financing to manage its business; its own internally generated revenue, encompassing both ferry and non-ferry components and government subventions. Ferry Income from Operations has been on the increase as shown below.

**Income from Operations**

| Year | 2013/2014 | 2014/2015 | 2015/2016 | 2016/2017 | 2017/2018 | 2017/2019 |
|---|---|---|---|---|---|---|
| | Shs'000' | Shs'000' | Shs'000' | Shs'000' | Shs'000' | Shs'000' |
| Actual | 341,031 | 441,442 | 388,753 | 417,908 | 492,452 | 565,177 |
| Target | 335,588 | 412,554 | 454,877 | 464,560 | 493,972 | 552,417 |
| Variance | 5,443 | 28,888 | (66,124) | (46,652) | (1,520) | 13,460 |

The Company surpassed its income from operations collection target by Kes 13 Million. The improved Income from Operations performance is largely attributed to tariff review that took effect on 15th February 2018. In addition, vehicular traffic across the channel increased by 1% from 1,974,365 units to 1,990,455 units.

**Government Grant**

The National Government disburses funds in two forms i.e. development funds for capital projects and compensation for free passage of pedestrians (recurrent funds). Unlike internally generated income, government grants seem not to be following the same trend. It has always been unpredictable over the years and this has been an impediment to the planning process by the Company.

Below is a summary of the same for the last five years.

**GOK Grant Recurrent**

| Year | | 2014/2015 | 2015/2016 | 2016/2017 | 2017/2018 | 2018/2019 |
|---|---|---|---|---|---|---|
| | | Shs'000' | Shs'000' | Shs'000' | Shs'000' | Shs'000' |
| GOK Grant | - Recurrent | 338,000 | 336,032 | 356,000 | 356,000 | 350,000 |

**Ferry operations**

Below is a summary of the vehicles crossed for the last five years of services.

| YEAR | 2014/2015 | 2015/2016 | 2016/2017 | 2017/2018 | 2018/2019 |
|---|---|---|---|---|---|
| VEHICLES | 1,697,897 | 1,727,525 | 1,757,309 | 1,974,365 | 1,990,455 |

**Information Communication Technology**

The Company is implementing an Enterprise Resource Planning (ERP) in its entire operations except for Legal Department and Internal Audit. ERP is an integrated system that aims to automate all the business processes through a single database. Currently, respective departments are monitoring the system functionalities against expected output and corrective action undertaken in consultation with the Consultants M/s Coretec Systems Solution.

The system went live in July 2018 and is 90% completed having covered the following modules; Finance, Procurement and supplies, Human resource (Including Employee self-service portal and recruitment portal), Operations, Security, Safety, Engineering & Maintenance and projects. Customer relation Management (CRM) was configured and tested but experienced operational challenges due to hosting of the CRM system in the same server as ERP. The company is however in the process of procuring a dedicated server for the CRM system after which it will be operational by first quarter of the financial year 2019/2020.

The Company is also in the process of implementing a cash-light solution at the channel for revenue collection as an innovation with the aim of minimizing cash handling and sealing any leakages in 2019/2020 financial year.

**Customer service delivery**

The Corporate Services Section is mandated to take a strategic position in the way the Company interacts with its publics (ferry users), staff and stakeholders at large. The specific responsibilities include;

- Managing the reputation of the organization.
- Developing, implementing and evaluating communication strategies.
- Handling of customer complaints.

During the year 2018/2019 under review the following activities were realized;

**Complaint Handling**

A complaint is usually reported when a customer is dissatisfied with a service or a product that is on offer. Our Company as a service provider is no exception in this scenario owing to the fact that the services offered are monopolistic in nature and absence of competition can easily lead to inefficiency. In order to be alert, Kenya Ferry uses the complaints as a feedback tool. The complaints are also compiled and sent to the Commission on Administrative Justice (CAJ – Ombudsman) as per the performance cycle guidelines. During the year under review we recorded 45 complaints to which all have been resolved. Majority of the complaints received centred around ferry delays, mtongwe channel ferry service and surcharges imposed on vehicles causing obstruction at the ramps and ferries.

**Media Relations**

Kenya Ferry Services Limited has an active social media platform (twitter - @FerryKenya and a facebook page - FerryKenya) aimed at creating seamless communication to customers and stakeholders. The Company' social media outlook has increasingly scaled up from 7,000 and 3,000 facebook followers to 10,594 and 3,200 respectively.

The total media content analysis conducted by the section established balanced coverage in both print and electronic media which all carried balanced stories about the organization and its operations. The MD was also interviewed live on KTN, KBC, K24, NTV and Pwani TV and local FM stations (Pili Pili, Radio Salaam, Rahma, Baraka, etc.)

The Corporate communication section managed to directly coordinate media activities with media houses to maximise positive coverage of the Company. The Company continues to attract interest especially on the latest development of the envisaged integrated coastal water transport system, Likoni express cable car and the new ferry "M.V. Safari" expected in January, 2020

The company has realized an increase in the online social media platform users (twitter and Facebook) during the year. This has been attributed to focus made on the following; creating the company brand awareness, promotion of our twitter account and keeping our followers engaged by tweeting valuable content.

**Corporate Social Responsibility**

**Free Eye Screening Camp**

The Company in collaboration with Kwale District Eye Centre in Kwale County carried out free eye check-ups at the women waiting bay on the Island side. The partnership began in 2015 and to date a total of 3970 patients have attended the eye screening camp. The event is held on every last Saturday of each month. From July, 2018 to June, 2019 a total number of 695 ferry users have benefited from the programme. The company used the opportunity as an outreach program in which a customer care desk was pitched to disseminate company information to ferry users and also as a feedback forum.

**Financial Support/ Donations**

The Company spent Kes 538,000 on donations to facilitate aimed at fostering cordial relationship with the local community and other stakeholders.

**Projects implementation progress**

In the year under review, the Company continued the implementation of the Enterprise Resource Planning solution in its entire operations. This project is intended to boost efficiency in ferry operations in line with KFSL ICT strategy 2013-2017. All departmental functions shall be automated such as preventive and corrective maintenance, toll revenue billing system, customer relations management, procurement, among others. This project is being undertaken by M/s Coretec Systems Solution and as at 30th June 2018 Finance, engineering, Human Resource and Procurement had all gone live. The remaining departments are expected to be finalized in the next financial year.

The Company is also in the process of rehabilitating its fleet of vessels to make them mechanically sound and guarantee availability as per operation schedules. In this regard MV Likoni and MV Kilindini were dry-docked as scheduled at African Marine & General Engineering Co. Ltd during the financial year at Kes 37 Million and Kes 109 Million respectively. In addition, 2 caterpillar C12 engines were fitted to MV Kilindini at a cost of Kes 20Million while MV Likoni prow modification works were undertaken by Ms Asif Spares at a cost of Kes 62 Million. The prow modification was important in order to reduce the gradient of the prow to an angle which would allow easy movement of trailers and buses, reduction of maintenance cost of the jacks and enable the prow to be remote controlled from the bridge.

The Company purchased two marine engines at Kes 3Million in an effort to rehabilitate the service boats MV Kivuko and MV Safina. One of the boat Mv Kivuko was repaired within the financial year and is serving while the MV Safina required fibre works. It is envisaged that the second boat will be back in service by close of quarter one of financial year 2019/2020.

During the year under review, the construction of Mv Safari had not started. The company was engaging the shipyard for the construction of MV Safari to commence. The ministry headquarters also took up the matter and a joint consultative meeting was held in November to chart the way forward. The ferry inspection consultant, Sun Fire Ltd was tasked to conduct the loss claim by Ozata shipyard and a report was submitted to the management for review. In May 2019, the multiagency team (which comprised of The Ministry of Transport Infrastructure Housing and Urban Development, the office of the Attorney General, and the National Treasury) and the tender processing committee held a meeting with the management of the Ozatashipyard on 13th May 2019 and resolved the existing dispute. The construction of the ferry was restarted and the shipyard issued a new production plan indicating that MV Safari will be delivered at the port of Mombasa on 15th January 2020.

The maintenance workshop project is 90% complete with project completion period scheduled for 30th August 2019.

## CORPORATE GOVERNANCE STATEMENT

Corporate governance refers to the principles, processes and practices by which a Company is operated, regulated and controlled so that it can set and fulfill its goals and objectives in a manner that adds value for the benefit of all stakeholders and is sustainable. It is concerned with systems and practices and procedures that govern the Company. Good corporate governance entails provision of structures that establish relationships among Company's board, shareholders, management and other stakeholders to ensure the Company business remains viable and sustainable.

The Company regards good corporate governance as crucial to the success of the business and is steadfastly committed to practice it so that the Company remains a sustainable and viable business of global stature. This statement sets out the main corporate governance practices and structures in the Company.

### Corporate governance guidelines

The following corporate governance guidelines and principles are applied in the Company to govern directors and staff: (i) the Provisions of the Companies Act on Duties of Directors; (ii) specified best corporate governance principles adopted from other jurisdictions as contained in the Company's Board Manual, Charter and Code of Conduct that the Company ascribes to; and (iii) the Public Officer Ethics Act, 2003 that applies to public officers.

Directors exercise independent judgment and professional competencies for effective governance of the Company as set out in the Board Manual which clearly spells out important governance arrangements covering: (i) appointment of directors; (ii) articulation of and commitment to respect the rights of shareholders; (iii) respective roles and functions of the Board, the Chairman, Managing Director and Company Secretary; (iv) conduct of Board meetings; (v) directors' induction and development; (vi) directors' duties, liabilities and code of conduct; (vii) terms of reference for all Board Committees; and (viii) disclosure of material information to the public.

The Directors' Code of Conduct sets out rules that govern the conduct of individual directors in order to enable the Board to operate effectively and in the best interests of the Company. The Code of Conduct sets out rules for directors to among others: act honestly, in good faith and for the best interest of the Company; exercise duty with care and diligence; avoidance and management of conflict of interest; maintain confidentiality of information about the Company; show commitment to and attend to Company business; and respect to fellow directors.

### Composition of the Board of Directors

The composition of the Board of Directors is as outlined to the key Company information on page 3 to 5 of this report.

**Role and responsibilities of the board**

The Board provides leadership and strategic direction to the Company. The main responsibilities of the Board are: (i) establishing the short and long-term goals of the Company and strategic plans to achieve those goals; (ii) ensuring preparation of the annual financial statements; (iii) approval and review of the annual budgets; (iv) setting and periodically reviewing key performance indicators and management performance; (v) ensuring that the Company has adequate systems of internal controls; and (vi) ensuring that the Company has adequate risk management plans for business continuity.

The Board of Directors has full access to the advice and services of the Company Secretary. They are also empowered to seek independent professional advice from the Attorney General of the Republic of Kenya where necessary.

**Role of Chairman of the Board of Directors**

The Chairman is primarily responsible for providing leadership to the Board, Chairing Board meetings and general meetings of members. The Chairman also ensures that the Board is supplied with timely and sufficient information to enable it to discharge its duties effectively.

**Managing Director & Chief Executive Officer**

The Managing Director is the Chief Executive of the Company responsible for the day to day management of the Company.

**Directors' training and development**

The Company recognizes the importance of having a well informed and fully empowered Board of Directors. In this regard, relevant training and capacity development opportunities are organized to equip Directors with skills and knowledge necessary to effectively perform their responsibilities. During the year, the Board members attended training programmes locally.

**Board work plan and meetings**

A work plan and schedule of meetings is prepared annually in advance. The Board meets at least once a quarter or more depending on the requirements of the business. Directors receive adequate notice for meetings and detailed papers on issues to be discussed before the meetings. The Board and its Committees held the following meetings during the year, which were well attended as detailed below;

| Board Members | Main Board | Finance and Establishment | Technical Committee | Audit & Risk | Special Board |
|---|---|---|---|---|---|
| Hon. Dan. Mwazo, EGH (Chairman) | 0 | 0 | 0 | 0 | 1 |
| Hon R.S. Kajembe, MGH (Chairman) | 4 | 0 | 0 | 0 | 5 |
| Mrs. Rosina Mruttu - Member | 3 | 2 | 4 | 0 | 5 |
| Mr. Gunga Chea - Member | 2 | 0 | 2 | 2 | 2 |
| Mr.Philip Ndolo - Member | 1 | 1 | 0 | 1 | 1 |
| Ms Daula Omar - Member | 4 | 5 | 4 | 0 | 5 |
| Ms Naima Amir - Member | 4 | 5 | 0 | 3 | 5 |
| Mr. A. Sudi, Alt. Director KPA | 2 | 0 | 2 | 2 | 2 |
| Eng. A. Masha, Alt. Director, MD KPA | 2 | 1 | 1 | 1 | 2 |
| Ms G. Maingi, Alt. PS Transport | 4 | 5 | 3 | 3 | 5 |
| Mr. F. Kingori, Alt. CS National Treasury | 1 | 1 | 0 | 1 | 2 |
| Mr. D. Ndolo, Alt. Director, National Treasury | 3 | 4 | 0 | 2 | 3 |
| Mr. Bakari Gowa, MD KFS | 4 | 5 | 4 | 0 | 5 |

**RISK MANAGEMENT**

The board recognizes risk management as an important tool to safe guard the interest of the organization business. To manage risk effectively the Company is in the process of developing a risk management policy. The following risk categories have been highlighted and corresponding strategies formulated for implementation;

**Strategic risk**

These are risks whose occurrence would significantly reduce the ability of the Company to realize its mandate and affect the business as a whole. They include among others strategic plan implementation and the Dongo Kundu bypass as briefly explained below;

**Strategic plan implementation**

As stated in the chairman's statement the Company had a strategic plan for the five years 2014-2019. Among the forecast risk on this item is delayed disbursement and underfunding. The Company to a large extent depends on the government to fund its development projects. Key to the strategic plan is the acquisition of two new ferries, rehabilitation and expansion of the mooring and landing facilities, extension of the ferry services to the larger Mombasa, Lamu and Kisumu regions. Save for the acquisition and rehabilitation of ferries, the other key areas are yet to be implemented due to financial constraint.

The landing and mooring projects is part of the investment associated with the strategic plan. The Company is in the process of procuring two additional ferries as a way to enhance efficiency and deal with the ever increasing demand of ferry services and decommission the old ferries.

**Dongo Kundu bypass**

Dongo Kundu bypass is a road that will be constructed to connect south coast to the Mombasa west mainland. The purpose of the bypass is to provide a quicker route and also help decongest the Likoni Ferry channel as well as the Mombasa island for motorist heading to south coast from Mombasa west mainland and vice versa. When completed it is envisaged that most of the tourists and to a big extent the long distance haulers may opt to use the bypass instead of the Likoni channel to cross to and from Mombasa. It is projected that the Company may lose business for saloon cars and station wagon, pick up, and kombis and trailers at least at a rate of 20%, 20% and 80% respectively. This will definitely deplete the revenue base of the Company and may affect sustainability of its operations.

On this regard the Company is planning to extend the ferry operations to the larger Mombasa, Lake Victoria and Lamu. The strategic plan provides for diversification into property management to supplement the revenue generation. Already proposals are being developed for the island plots and consultations with the parent Ministry and Treasury is ongoing.

**Operation risks**

The Kilindini harbor is serving the Northern transport corridor covering Uganda, Rwanda, Burundi, Congo and Southern Sudan. The operation of the harbor lies at the Centre of the Likoni and Mtongwe ferry operations that handles heavy vehicular and pedestrian traffic. The numerous inbound and outbound ships pose high collision risks save for the effective communication systems in place between the ferry operators and the harbor master control rooms. Ship to ship, ferry to ferry and ferry to ship collisions are as well as possible hence endangering live and loss of property. To enhance on safety, ferries are required to give way to all inbound and outbound ships and this causes delays on our operations. This trend is expected to worsen as port operations increases especially with the ongoing dredging of the channel and plans to accommodate bigger capacity vessels at the port.

**REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended June 30, 2019 which show the state of the Company's affairs.

**Principal activities**

The principal activity of the Company is offering ferry services to motorists and pedestrians at the Likoni and Mtongwe Channels.

**Results**

The results if the Company for the year ended June 30, 2019 are set out on page 24 to this document.

**Dividends**

The Company is a non- commercial state corporation

**Directors**

The members of the Board of Directors who served during the year are as shown on page 5. In accordance with the State corporations Act and Regulations of the Company's articles of Association, two of the Directors retired during the period.

**Auditors**

The Auditor General is responsible for the statutory audit of the Company in accordance with section 11(2) (c) of the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By order of the Board

**Elijah Kitur**
**Corporate Secretary**
**Mombasa**
**Date** 17th Sep 2019

**STATEMENT OF DIRECTORS RESPONSIBILITIES**

Section 81(1) of the Public Finance Management Act, 2012 and section 14(1-2) of the State Corporations Act, require the Directors to prepare Financial Statements in respect of that *Company*, which give a true and fair view of the state of affairs of the *Company* at the end of the financial year and the operating results of the *Company* for that year. The Directors are also required to ensure that the *Company* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *Company*. The Directors are also responsible for safeguarding the assets of the *Company*.

The Directors are responsible for the preparation and presentation of the *Company's* Financial Statements, which give a true and fair view of the state of affairs of the *Company* for and as at the end of the financial year ended on June 30, 2019. 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 Company; (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 *Company*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *Company's* Financial Statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the *Company's* Financial Statements give a true and fair view of the state of *Company's* transactions during the financial year ended June 30, 2019, and of the *Company's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *Company*, which have been relied upon in the preparation of the *Company'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 *Company* 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 Company's financial statements were approved by the Board on 17th September 2019 and signed on its behalf by:

**Hon. Dan Mwazo**
**Chairman**

**Bakari Hamisi Gowa**
**Managing Director**

# REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

*Enhancing Accountability*

**HEADQUARTERS**
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

## REPORT OF THE AUDITOR-GENERAL ON KENYA FERRY SERVICES LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of Kenya Ferry Services Limited set out on pages 24 to 52, which comprise the statement of financial position as at 30 June, 2019, statement of comprehensive income, statement of changes in equity, 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 Kenya Ferry Services Limited as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with Kenya Ferry Services Limited Act, 2006 and the Public Finance Management Act, 2012.

### Basis for Qualified Opinion

### 1. Trade and Other Receivables

### 1.1 Long Outstanding Debts

As previously reported, the statement of financial position as at 30 June, 2019 reflects trade and other receivables balance of Kshs.480,995,000 which includes three (3) debtors owing amounts of Kshs.12,300,496, Kshs.50,652,633 and Kshs.27,500,000, all totalling to Kshs.90,453,129. The total amount of Kshs.90,453,129 has been outstanding since the financial year 2008/2009. Although Management has indicated that the debts are subject to court cases, no documentary evidence was provided to support the assertion. Further, the original debtors' statements were not availed for audit confirmation.

### 1.2 Staff Receivables

As disclosed in Note 20 to the financial statements, the trade and other receivables balance of Kshs.480,995,000 includes an amount of Kshs.6,817,000 in respect of staff receivables. Included in the latter balance is an amount of Kshs.3,220,000 which has been outstanding for more than five (5) years. No evidence of debt recovery was availed for audit review and Management has not provided explanations on how the former staff were cleared before settling their debts.

Consequently, it has not been possible to confirm the accuracy, completeness, validity and recoverability of trade and other receivables balance of Kshs.480,995,000 as at 30 June, 2019.

### 2. Cash and Cash Equivalents

The statement of financial position reflects a cash and cash equivalents balance of Kshs.201,515,000 which, as disclosed in Note 21 to the financial statements, comprised of Kshs.4,315,000, Kshs.10,000, Kshs.161,438,000 and Kshs.35,653,000 held in expenditure, special, development and collection accounts, respectively. However, the expenditure account balance of Kshs.4,315,000 was at variance with the bank reconciliation statement balance of Kshs.11,818,833, resulting to unreconciled variance of Kshs.7,503,833. In addition, stale cheques amounting to Kshs.243,997, some dating as far back as July, 2017, had not been replaced or written back in cash book as at 30 June, 2019. Further, the bank reconciliation statements reflected uncredited receipts of Kshs.10,046,703, out of which receipts totalling Kshs.7,676,013 relate to periods between July, 2017 and December, 2018.

In the circumstances, the accuracy, and completeness of cash and cash equivalents balance of Kshs.201,515,000 as at 30 June, 2019 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Ferry Services Limited 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

### Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects revenue budget of Kshs.1,362,875,000 and actual receipts of Kshs.1,364,525,000, resulting to net under funding of Kshs.1,650,000. Similarly, the statement reflects an expenditure budget of Kshs.1,265,771,000 against actual expenditure of Kshs.1,295,563,000, resulting to over-expenditure of Kshs.29,791,000. However, no evidence was provided to indicate that the over-expenditure or reallocations was approved as required by Section 48 (5) of the Public Finance Management (National Government) Regulations, 2015 which requires reallocations to be approved by the respective Accounting Officer of the entity.

Management was in breach of the law to this extent.

**Other Information**

The Directors are responsible for the other information, which comprises the Chairman's Statement, Managing Director's Statement, the Statement of Corporate Governance, Report of the Directors and the Statement of Directors' Responsibilities. The other information does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance or conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

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

**Basis for Conclusion**

**1. Property, Plant and Equipment**

**1.1 Idle Assets**

As previously reported, Management procured and installed weigh bridges on both sides of the Likoni channel in the year 2015/2016 at a cost of Kshs.26,779,893 as indicated in the assets register. Although the weigh bridges were integrated with the revenue system, they are practically idle assets since the Kenya Ferry Services Limited does not use them to charge for use of its ferries by motor vehicles. Further, Management indicated that the weigh bridges were a control measure to enhance safety by estimating the weight of motor vehicles boarding ferries at the channel. However, there was no evidence showing that the weights of motor vehicles measured through the weigh bridges are used to control the number of motor vehicles that board the ferries.

Consequently, it has not been possible to confirm the propriety and value for money from expenditure totaling Kshs.26,779,893 incurred on the installation of weigh-bridges.

## 1.2 Construction and Delivery of Two New Ferries

As previously reported, the Kenya Ferry Services Limited awarded a contract for supply and delivery of two new passenger ferries at a cost of Kshs.1,863,000,000 (US $18,630,000). A down payment of Kshs.598,023,000 (US $5,920,726.7) was paid to the local appointed Agent in August, 2015. According to the contract, signed on 27 June, 2015, the new ferries were to be delivered after seventeen (17) months. However, available information indicated that the first ferry was delivered in July, 2017 while the second ferry was delivered on 25 April, 2020, a delay of about five (5) years. Further, according to the supplier confirmation of 15 January 2020, the Kenya Ferry Services Limited had already paid US$19,695,141.56 (equivalent of Kshs.1,519,379,614) and that the Company still owed the contractor US$2,391,423.08 (Kshs.239,501,021.46) as at the same date.

In light of the foregoing, and as a result of the undue delay, it has not been possible to confirm value for money for the building and supply of two new ferries at cost of Kshs.1,863,000,000 and propriety of expenditure totaling Kshs.1,519,379,614 paid to the contractor as at 30 June, 2019.

## 2. Non- Submission of Statutory Deductions

As disclosed in Note 22 to the financial statements, included in the trade and other payables of Kshs.184,853,000 is an amount of Kshs.146,660,000 in respect of trade creditors. The latter balance includes an amount of Kshs.17,681,447 owed to the Kenya Revenue Authority. Management has not provided explanations for failure to remit the statutory deductions as required by the Income Tax Act, Cap 470. The unremitted amounts attracts interest and penalties.

Management is in breach of the law to this extent.

## 3. Signing of the Financial Statements

The financial statements for the year ended 30 June, 2019 availed for audit review lacked the Board Chairman's signature. Management efforts to get the signature were fruitless as evidenced by the letter written to the Principal Secretary, State Department of Transport, Infrastructure, Housing and Urban Development dated 25 March, 2020 requesting for the signing of attached financial statements following revocation of the appointment of the Chairman of the Board and four (4) Directors vide Kenya Gazette, Vol. No.139 and Gazette No.9822, dated 16 October, 2019 which were issued on 17 October, 2019. As at the time of reporting on 8 April, 2020, response to the letter and duly signed accounts had not been received.

Consequently, the financial statements do not comply with International Public Sector Accounting Standards as prescribed by the Public Sector Accounting Standards Board.

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 Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

**Basis for Conclusion**

**1. Revenue**

**1.1. Delayed Banking**

The statement of comprehensive income reflects total revenue of Kshs.1,364,525,000 for the year ended 30 June, 2019 which includes an amount of Kshs.565,875,000 in respect of income from operations. Records availed for audit review indicated that during the year under review, the Kenya Ferry Services Limited contracted a firm to provide toll collection and cash-in-transit services for daily toll collections and banking of the revenue into the Kenya Ferry Service's Collection Account. However, review of sampled cash receipts and bank deposit slips for the months of April, May and June 2019 revealed delayed banking of Kshs.70,475,595 by between 2-6 days. This is contrary to Section 5.5.1 of the Kenya Ferry Finance Manual which requires the finance manager to ensure prompt banking of all cash or cheque received within 24 hours of receipt. Further, clause 4 of the contract agreement between the Kenya Ferry Services and the collection firm requires delivery to the bank to be done in the morning following the collection of the revenue. Delayed banking may result to misappropriation of funds.

**1.2. Income from Operations – Weigh Bridges**

Included in the income from operations of Kshs.565,875,000, as disclosed in Note 2 to the financial statements, is an amount of Kshs.549,473,000, being toll collections charged to motorists who are ferried across the Likoni channel. An inspection revealed that, although the weigh bridges were integrated with the revenue system on both sides of the channel, they were not in use as the Kenya Ferry Services Limited does not use weight to charge for use of ferry by motor vehicles.

The loaded motor vehicles are charged at different rates from empty ones. However, the toll collectors rely on information provided by drivers regarding the state of load in the motor vehicles. Therefore, there was no evidence that all motor vehicles carrying cargo are inspected to confirm the state of load carriage before payment is made.

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 processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015 I report based on the audit, that:

(i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit;

(ii) In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books;

(iii) The Company's statement of financial position and statement of comprehensive income are in agreement with books of account; and

(iv) In my opinion the information given in the report of the Directors is consistent with the financial statements.

**Responsibilities of the Management and those Charged with Governance**

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and for maintaining effective internal control as the 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 overall governance.

In preparing the financial statements, the Management is responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the Management is aware of the intention to liquidate the Company or to cease operations.

The 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, the 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 Directors are responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how the entity 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 Management.

- Conclude on the appropriateness of the Management's` use of the going concern 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 Company's ability to continue as a going concern. 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 Company to cease to continue as a going concern.

- 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 Kenya Ferry Services Limited to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the 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 the 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.

**Nancy Gathungu**
**AUDITOR-GENERAL**

**Nairobi**

**19 July, 2021**

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2019

| | Notes | 2019 Shs'000' | Restated 2018 Shs'000' | 2018 Shs'000' |
|---|---|---|---|---|
| Income from operations | 2 | 565,875 | 493,972 | 493,972 |
| Government compensation | 3 | 493,000 | 506,000 | 506,000 |
| Other incomes | 4 | 19,176 | 19,525 | 19,525 |
| Transfer from deferred income | 5 | 286,474 | 261,059 | 261,059 |
| **TOTAL REVENUE** | | **1,364,525** | **1,280,556** | **1,280,556** |
| Staff costs | 6 | 500,179 | 519,259 | 519,259 |
| Administrative expenses | 7 | 145,491 | 108,371 | 108,371 |
| Operating costs | 8 | 270,418 | 243,180 | 243,180 |
| Board expenses | 9 | 13,763 | 16,572 | 16,572 |
| Repairs and maintenance | 10 | 74,587 | 54,710 | 135,946 |
| Depreciation expense | 14 | 290,791 | 295,236 | 213,999 |
| Amortisation expense | 17 | 333 | 333 | 333 |
| **TOTAL EXPENSES** | | **1,295,563** | **1,237,659** | **1,237,659** |
| **OPERATING SURPLUS** | | **68,962** | **42,896** | **42,896** |

## STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2019

| | Notes | As at 30 June 2019 Shs'000' | Reinstated 2018 Shs'000' | 2019 Shs'000' |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | 16 | 3,201,828 | 3,331,321 | 3,289,888 |
| Capital work in progress | | 1,339,851 | 1,050,730 | 1,050,730 |
| Investment property | 18 | 314,757 | 322,626 | 322,626 |
| Prepaid operating lease rentals | 17 | 2,058 | 2,391 | 2,391 |
| | | 4,858,494 | 4,707,068 | 4,665,635 |
| **Current assets** | | | | |
| Inventories | 19 | 82,884 | 91,847 | 91,848 |
| Trade and other receivables | 20 | 480,995 | 410,582 | 452,015 |
| Cash and cash equivalents | 21 | 201,515 | 325,953 | 325,953 |
| | | 765,394 | 828,383 | 869,816 |
| | | **5,623,889** | **5,535,451** | **5,535,451** |
| **EQUITY AND LIABILITIES** | | | | |
| **Shareholders Funds** | | | | |
| Share capital | 14 | 499,904 | 499,904 | 499,904 |
| Revaluation reserve | | 542,280 | 542,280 | 542,280 |
| Retained earnings | | (568,811) | (637,773) | (637,773) |
| Deferred income | | 4,965,662 | 4,902,135 | 4,902,135 |
| | | 5,439,035 | 5,306,546 | 5,306,546 |
| **Current liabilities** | | | | |
| Trade and other payables | 22 | 184,853 | 228,905 | 228,905 |
| | | **5,623,889** | **5,535,451** | **5,535,451** |

The financial statements on pages 24 -52 were approved and authorised for issue by the Board of Directors on ______________________2019 and were signed on its behalf by;

17th September 2019

**Hon. Dan Mwazo**
**Chairman**

**Bakari Hamisi Gowa**
**Managing Director**

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2019

| | Notes | Ordinary Share Capital Shs'000' | Revaluation reserve Shs'000' | Retained earnings Shs'000' | Deferred income Shs'000' | Total Shs'000' |
|---|---|---|---|---|---|---|
| **Year ended 30 June 2019** | | | | | | |
| At start of year | | 499,904 | 542,280 | (637,773) | 4,902,135 | 5,306,546 |
| Additional deferred income | | - | - | - | 350,000 | 350,000 |
| Transfers to income statement | | - | - | - | (286,474) | (286,474) |
| Surplus for the year | | - | - | 68,962 | - | 68,962 |
| **At end of year** | | **499,904** | **542,280** | **(568,811)** | **4,965,661** | **5,439,034** |

| **Year ended 30 June 2018** | Ordinary Share Capital Shs'000' | Revaluation reserve Shs'000' | Retained earnings Shs'000' | Deferred income Shs'000' | Total Shs'000' |
|---|---|---|---|---|---|
| At start of year | 499,904 | 542,280 | (680,976) | 4,673,194 | 5,034,402 |
| Additional deferred income | - | - | - | 490,000 | 490,000 |
| Transfers to income statement | - | - | - | (261,059) | (261,059) |
| Deficit for the year | - | - | 42,896 | - | 42,896 |
| Impairment of asset | - | - | 307 | - | 307 |
| **At end of year** | **499,904** | **542,280** | **(637,773)** | **4,902,135** | **5,306,546** |

The notes on pages 33 to 62 form an integral part of these financial statements

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2019

| | Notes | 2019 Shs'000 | Restated 2018 Shs'000 | 2018 Shs'000 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Cash generated used in operations | 23 | (31,888) | 242,716 | 271,434 |
| Net cash used in operating activities | | (31,888) | 242,716 | 271,434 |
| **Investing activities** | | | | |
| Cash paid for purchase of property, plant and equipment | 16 | (99,897) | (23,577) | (52,295) |
| Cash incurred on capital works on progress | | (342,653) | (637,522) | (637,522) |
| Net cash used in investing activities | | (442,551) | (661,099) | (689,817) |
| **Financing activities** | | | | |
| Proceeds from: | | | | |
| - Development grants (Gok) | | 350,000 | 490,000 | 490,000 |
| Net cash from financing activities | | 350,000 | 490,000 | 490,000 |
| (Decrease)/Increase in cash and cash equivalents | | (124,438) | 71,617 | 71,617 |
| **Movement in cash and cash equivalents** | | | | |
| At start of year | | 325,953 | 254,336 | 254,336 |
| (Decrease)/Increase in cash and cash equivalents | | (124,438) | 71,617 | 71,617 |
| At end of year | 21 | 201,515 | 325,953 | 325,953 |

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

| | Notes | budget Shs"000" | Actual Shs"000" | Performance % |
|---|---|---|---|---|
| **Revenues** | | | | |
| Income from operations | | 552,417 | 565,875 | 2% |
| Government compensation | | 493,000 | 493,000 | 0% |
| Other incomes | | 25,825 | 19,176 | -26% |
| Transfer from deferred income | | 291,633 | 286,474 | -2% |
| **Total revenue** | | **1,362,875** | **1,364,525** | |
| **Recurrent expenditures** | | | | |
| Staff costs | | 500,476 | 500,179 | 0% |
| Administrative expenses | | 106,273 | 145,491 | -37% |
| Board expenses | | 19,912 | 13,763 | 31% |
| Operating costs | | 282,459 | 270,418 | 4% |
| Repairs and maintenance | | 63,883 | 74,587 | -17% |
| Depreciation expense | | 290,708 | 290,791 | 0% |
| Amortisation expense | | 333.00 | 333.00 | 0% |
| **Total recurrent expenditure** | | **1,264,044** | **1,295,563** | |
| **OPERATING SURPLUS** | | **98,831** | **68,962** | |

All variances are explained in the relevant notes to the financial statements on pages 37 - 52.

## 1. SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

a) **Statement of compliance and basis of preparation**
The financial statements have been prepared on a historical cost basis except for the measurements at re-valued amounts of certain items of property, plants and equipment's, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at the present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgment in the process of applying the *Company's* accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Company and all the values are rounded to the nearest thousands (Kshs'000).

The financial statements have been prepared in accordance with the PFM Act, the State Corporation Act, and the International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented

b) **Revenue recognition.**
Revenue is recognized to the extent that it is probable that future economic benefits will flow to the Company and the revenue can be reliably measured. The Company's toll tariffs are based on approved Kenya Gazette notice issued by the Cabinet Secretary, Ministry of Transport, Infrastructure, Housing Urban Development and Public works (MoTIHUDPW). Currently the legal notice no. 4 of the Traffic Act cap 410 dated 11th January 2018 is in force.

Revenue is recognized at the fair value of consideration received or expected to be received in the ordinary course of the *Company's* activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the *Company's* activities as described below.

i) **Revenue from the sale of goods and services** is recognized in the year in which the Company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

ii) **Finance Income** comprises interest receivable from the bank deposits and investments in securities, and is recognized in the profit and loss on a time proportion basis using the effectiveness interest rate method.

iii) **Dividend income** is recognized in the income statement in the year in which the right to receive the payment is established.

**1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

iv) **Rental income** is recognized in the income statement as it accrues using the effective lease agreements.

b) **Revenue recognition (continued)**

v) **Other income** is recognized as it accrues.

vi) **In-kind contributions:** In-kind contributions are donations that are made to the Company in the form of actual goods and/or services rather than in a money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Company includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

c) **Government Grants.**

Government grants are not recognized until there is reasonable assurance that the company will comply with the conditions attaching to them and that the grant will be received.

Government grants are recognized in the profit or loss on a systematic basis over the periods in which the company recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the company should purchase, contract or otherwise acquire non-current assets are recognized as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the company with no future related costs are recognized in the profit or loss in the period in which they become receivable.

d) **Property, plant and equipment**

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external values.

**1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Increases in the carrying amounts of assets arising from revaluation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items and are recognized in profit or loss in the income statement.

e) **Depreciation and impairment of property, plant and equipment**

Freehold land is not depreciated.

Leasehold land is depreciated over the remaining period of the lease.

Depreciation on property, plant and equipment is the recognized in the income statement on a straight line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

| | | |
|---|---|---|
| Building and civil works | 50 years | 2% |
| Plant and machinery | 8 years | 12.50% |
| Motor vehicle including motorcycles | 4 years | 25% |
| Computers and related equipment | 3 years | 30% |
| Office equipment, furniture and fittings | 8 years | 12.50% |
| Ferry crafts | 20 years | 5% |
| Ferry dry docking cost | 2 Years | 50% |

A full year's depreciation charge is recognized both in the year of asset purchase and in the year of assets disposal. Depreciation on dry docking cost is prorated.

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

Capital expenditure projects undertaken during the course of the year and not completed as at the reporting date are classified as Capital work in progress. The total amount is transferred to and amalgamated with the appropriate asset category in the year of completion. Capital work in progress is not depreciated and is disclosed as separate line item in the statement of financial position under non-current assets.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) **Investment property**

Investment property is long-term investments in land and buildings that are not occupied substantially for own use. Investment property are initially recognized at cost and subsequently carried at fair value representing open market value at the reporting date subsequently stated at historical cost less accumulated depreciation.

Depreciation is calculated using the straight line method to write down the cost of the property to its residual value over its estimated useful life using an annual rate of 2%.

Subsequent expenditure on investment property where such expenditure increases the future economic value in excess of the original assessed standard of performance is added to the carrying amount of the investment property. All other expenditure is recognized as an expense in the year which it is incurred.

Gains and losses on disposal of investment property are determined by reference to their carrying amount and are taken into account in determining operating profit or loss.

g) **Intangible assets**

Computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives at an annual rate of 30%.

h) **Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined by the first in first-out (FIFO) method. Net realizable value is the estimate of the selling price in the ordinary course of business, less the selling expenses.

i) **Finance and operating leases**

Leases which confer substantially all the risks and ownership to the *Company* are classified as finance leases. Upon initial recognition, the leased assets is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is substantially accounted for in accordance with the accounting policy applicable to the assets.

All other leases (including prepaid operating lease) are treated as operating leases and the leased assets are recognized in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease Amortization of prepaid operating lease rentals is charged to the statement of comprehensive income on a straight line basis over the lease term of 33 years. Lease incentives are recognized as an integral part of the total lease expense over the term of the lease.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) **Retirement benefit obligation**

The Company operates a defined contribution scheme for all its employees. The scheme is determined by Insurance Company of East Africa and is funded by both the Company and the employees. Company contribution is charged to the income and expenditure statement in the year in which it relates.

The Company also contributes to a defined scheme, the National Social Security Fund (NSSF). Contributions are determined by the legal statute and are currently at Kshs. 200 per month. The Company contributions are charged to the income and expenditure statement in the year in which it relates.

k) **Cash and cash equivalents.**

Cash and cash equivalents comprise cash in 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 in a commercial bank in Kenya at the end of the financial year.

In the statement of financial position, bank overdrafts are separately disclosed under current liabilities.

l) **Exchange rates differences.**

The accounting records are maintained in the functional currency of the primary economic environment in which the Company operates Kenya shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transaction or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

m) **Financial assets.**

Financial assets are initially recognized at fair value. The Company's financial assets which include cash and cash equivalents and receivables fall into the following categories:

**Cash and cash equivalents:** For the purposes of the statement of cash flows, cash and cash equivalents. Comprise cash in hand and short term marketable securities.

**Receivables:** Receivables are carried at original invoiced amount less an estimate made for impairment based on a review of all outstanding amounts at the year-end. Bad debts are written off in the year in which they are identified. Subsequent recoveries of amounts previously written off are credited to income in the year of their recovery.

**1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

n) **Financial liabilities.**

The company financial liabilities include borrowings and trade and other payables. These are initially recognized at fair value and subsequently measured at amortized cost, using the effective interest rate method. Trade and other payable are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the Company or not, less any payments made to the suppliers.

o) **Comparative figures.**

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

p) **Financial Risk Management.**

The company activities expose it to a variety of financial risks which include: credit risk, liquidity risk and market risks.

The company overall risk management is carried out by the respective departments. The policies focus on the unpredictability of changes in the business environment and seek to minimize the potential adverse effects of such risks on the company's performance by setting acceptable levels of risk.

i) **Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from cash and cash equivalents, as well as credit exposures to customers, including outstanding receivables. Credit risk on trade receivables is managed by ensuring that credit is extended to customers with an established credit history. The credit history is determined by taking into account the financial position, past experience and other relevant factors. Credit is managed by setting the credit limit and the credit period for each customer. The utilization of the credit limits and the credit period is monitored by management on a monthly basis.

ii) **Liquidity risk.**

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents to meet obligations as they fall due. The management ensures that adequate cash reserves are maintained to pay off liabilities as they crystallize.

The table below represents cash flows payable by the Company under-non derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table below are contractual undiscounted cash flows. Balances due but are over 90 days equal their carrying balances at year end. The liability shall however be discharged as a first charge in the next financial year.

**NOTES (CONTINUED)**

| Details | Balance | 01-06-19 ..30-06-19 | 01-05-19 ..31-05-19 | 01-04-19 ..30-04-19 | Before 01-04-19 |
|---|---|---|---|---|---|
| | Kshs'000 | Kshs'000 | Kshs'000 | Kshs'000 | Kshs'000 |
| Total Payables as at 30th June 2019 | 146,660 | 32,387 | 9,849 | 4,427 | 99,998 |

**iii) Market risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and comprises three types of risks: currency risk, interest rate risk and other price risk.

**iii) Market risk (continued)**

a) *Interest rate risk*: the company's interest rate risk arises from short term bank deposits because of changes in market interest rates.

b) *Currency risk:* Currency risk arises on financial instruments that are denominated in foreign currency. The company has no foreign currency denominated financial instruments as at the reporting date hence not exposed to currency risk.

q) **Effective IFRS Disclosures.**

The company has no disclosures on new standards and amendments to published standards effective as at the end of reporting period, neither are new and revised standards and interpretations in issue but not yet effective in the period ended or impact of new and revised standards and interpretation on the financial statements for the year ended and future annual periods.

r) **Deferred Income.**

All forms of capital grants from the Government of Kenya whose primary condition is that the Kenya Ferry Services Ltd should purchase, construct or otherwise acquire non-current assets the useful lives of the related assets (for acquisition of non-current assets) are recognized in the statement of comprehensive income on a systematic basis over the period that the Company enjoys the economic benefit for use of the asset usually equal to the depreciation rate or useful life of the asset.

s) **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

**Progress on follow up of auditor recommendations**

The Company is yet to be invited to Parliamentary Investment Committee (PIC) in respect to the audit certificate issues raised by the Company's external auditors M/s Office of Auditor General (OAG) for the financial years 2015/2016, 2016/2017 and 2017/2018.

| | 2019 | Restated 2018 | 2018 |
|---|---|---|---|
| **2. Income from Operations** | **Shs'000'** | **Shs'000'** | **Shs'000'** |
| Toll collection | 549,473 | 478,035 | 478,035 |
| Ferry priority passes | 16,403 | 15,937 | 15,937 |
| | **565,875** | **493,972** | **493,972** |

This is the main source of internally generated revenue the Company collects. It is made up of toll charges levied on motorists as they access the services of the Company. In addition to the toll charges, the Company operates ferry passes which allows its customers to prepay for ferry services in the form of priority pass holders. This allows customers (motorists) to queue jump and board the available ferry on the ramp.

The Company's income from toll collections for the year was Kshs 566 million which represents an increase of 14% compared to the year 2017/2018 earnings of Kshs 494 million. The Company managed to exceed its yearly target on toll revenue by 2% i.e. Kshs 566 Million against a target of Kshs 552 million. This is majorly attributable to the fact that the proposal for revision of toll tariffs on motorists was approved and subsequently gazzeted by the parent Ministry MoTIHUDPW. The actual implementation of new tariffs commenced on 15th February 2018 and the impact has been an increase of revenue. The collection from ferry passes increased by 3% from Kshs16 million in 2017/2018 to Kshs16.4 million in 2018/2019. The Company is optimistic that this category of revenue shall improve in the subsequent financial years.

In general, earnings from internally generated source have been registering a positive trend for the last five years. Overall, vehicular traffic across the channel increased by 1% from 1.97 million units in 2017/2018 to 1.99 million units in 2018/2019 financial year.

In the next financial year 2019/2020, the Company targets to introduce a cashless collection system for toll revenue (this will be part of the large computerization programme being undertaken in the Company) to enhance controls and minimize toll leakages.

| 3. Government compensation | 2019 Shs'000' | Restated 2018 Shs'000' | 2018 Shs'000' |
|---|---|---|---|
| Recurrent grants received | **493,000** | **506,000** | **506,000** |

During the year that ended the Company received a total of Kshs 493 million; compared to Kshs 506 million earned in the previous year to supplement operations of the Company. The existing financing arrangement with respect to compensation for free passage of passengers is not sustainable in that whereas the Company's revenue generation has steadily increased over the years, the government subventions are not only inadequate, but erratic and unpredictable.

| 4. Other income | 2019 Shs'000' | Restated 2018 Shs'000' | 2018 Shs'000' |
|---|---|---|---|
| Infrastructure rent income | 8,939 | 8,979 | 8,979 |
| Commercial adverts | 8,986 | 9,078 | 9,078 |
| Tender Documents | - | 429 | 429 |
| Used oil, drums, and commission | 535 | 858 | 858 |
| Hire of ferries | 715 | 181 | 181 |
| | **19,176** | **19,525** | **19,525** |

This category of income encompasses all non-ferry related sources. It includes rental income from mainland ferry terminus and facilities, commercial advertising, and sale of tender documents and disposal of Company assets.

Commercial advertisements run internally by the Company registered a marginal decrease from Kshs 9 million in 2017/2018. This is attributed to Management decision of re - contracting and reorganization of the service to ensure maximum return to the organisation.

| 5. **Deferred income** | **2019 Shs'000'** | **2018 Shs'000'** | **2018 Shs'000'** |
|---|---|---|---|
| Ferrycraft | 128,760 | 124,388 | 124,388 |
| Infrastructure Building | 7,869 | 7,869 | 7,869 |
| Office Building | 1,235 | 1,235 | 1,235 |
| Car Shade | 9 | 9 | 9 |
| Dry Docking | 103,937 | 82,269 | 82,269 |
| Ferry Generators | 869 | 2,171 | 2,171 |
| Ferry Engines | 1,094 | 3,131 | 3,131 |
| Safety Equipment | 9,816 | 9,816 | 9,816 |
| Mainland Ramp | 1,558 | 1,558 | 1,558 |
| Mtongwe Pontoon | 6,370 | 6,093 | 6,093 |
| Peleleza Jetty | 6,058 | 6,060 | 6,060 |
| Security Project | 10,509 | 11,215 | 11,215 |
| Schottel Steering System Nyayo | 1,171 | 2,803 | 2,803 |
| Furniture & Equipment | 186 | 117 | 117 |
| Computers | 3,964 | 2,325 | 2,325 |
| Island ramp | 1,793 | - | - |
| Island wall | 1,012 | - | - |
| Generator(Welding machine) | 263 | - | - |
| Transfer for the year | **286,474** | **261,059** | **261,059** |

Deferred income was earned from the use of the following assets whose costs were financed by funds received from the Government in the form of grants. The benefit is apportioned from various assets in the financial year.

| **6. Staff costs** | **2019 Shs'000'** | **2018 Shs'000'** | **2018 Shs'000'** |
|---|---|---|---|
| Salaries and allowances | 439,011 | 451,736 | 451,736 |
| NSSF | 689 | 680 | 680 |
| Pension contribution | 21,962 | 20,976 | 20,976 |
| Gratuity | 733 | 733 | 733 |
| Staff Welfare | 37,784 | 45,133 | 45,133 |
| | **500,179** | **519,259** | **519,259** |

Staff cost include all forms of remunerations paid to employees for services rendered to the Company. Total staff costs incurred during the year was Kshs 500 Million against a budgetary provision of Kshs 522 Million. The cost is attributed to 14No leavers and recruitment of 8No joiners into the Company.

Staff welfare includes staff medical cover, service pay and token of appreciation that may be paid. As at 30th June 2019, the Company had a staff compliment of 284 employees against a staff establishment of 340 employees.

Staff cost include all forms of remunerations paid to employees such as salaries and allowances, NSSF contributions, pension contributions, gratuity and staff welfare. During the period the Company acquired one new state of the art vessel, MV. Jambo, that has a larger vehicular and passenger capacity. With its delivery and commissioning on 5th August 2018 additional workforce was deployed to this vessel. The ferry requires at least a total of twelve (12) crew members to handle it effectively. The Company requested the National Treasury through the Ministry of Transport, Infrastructure, Housing and Urban Development to consider and grant approval for recruitment of additional staff for the operations and also to provide additional funds for this exercise. During the intervening period, the Company had to utilize the services of available personnel who covered the extra duties through payment of overtime and extraneous allowances. Normally, overtime payment is expensive considering the fact that the hours payable are double the normal working hours.

As per the Human Resource Policy, the Company provides a comprehensive medical cover for all employees and their dependents through National Hospital Insurance Fund.

| The average number of employees at the end of the year was: | **2019** **No.** | **Restated 2018** **No.** | **2018** **No** |
|---|---|---|---|
| Permanent - Management | 120 | 123 | 123 |
| Permanent - Unionisable | 163 | 166 | 166 |
| Temporary & contract employee | 1 | 1 | 1 |
| | **284** | **290** | **290** |

| 7. Administrative Expenses | 2019 Shs'000' | Restated 2018 Shs'000' | 2018 Shs'000' |
|---|---|---|---|
| Water & Electricity | 13,681 | 10,147 | 10,147 |
| Telecommunication | 5,479 | 5,240 | 5,240 |
| Travel - Domestic & Foreign | 11,660 | 17,479 | 17,479 |
| Printing & Advertising | 9,173 | 8,000 | 8,000 |
| Subscription - Newspapers & Periodicals | 320 | 364 | 364 |
| Trade Shows & Exhibitions | 2,467 | 1,766 | 1,766 |
| Sports & Recreation | 7,451 | 337 | 337 |
| Rent & Rates | 855 | 1,006 | 1,006 |
| Training | 6,473 | 7,775 | 7,775 |
| IT Implementation & Training | 4,732 | 4,832 | 4,832 |
| Gifts Food and Drinks | 4,102 | 6,038 | 6,038 |
| Staff Uniforms | 7,149 | 4,312 | 4,312 |
| General Office Supplies | 9,167 | 8,808 | 1,600 |
| Office & General Supplies | - | - | 2,148 |
| Utilities Supplies & Services | - | - | 5,060 |
| Sanitary & Cleaning | 1,736 | 1,398 | 1,398 |
| General Insurances | 3,476 | 4,173 | 4,173 |
| Legal | 14,829 | 14,112 | 14,112 |
| Contracted Professional Services | 7,969 | 4,184 | 4,184 |
| HIV & Gender Mainstreaming | 105 | 862 | 862 |
| Fuel - MV | 160 | 837 | 837 |
| Transport - Funeral | 1,928 | 151 | 151 |
| Fumigation | 421 | 462 | 462 |
| Bank Charges | 290 | 206 | 206 |
| Corporate Social Responsibility | 1,330 | 3,319 | 3,319 |
| Impairment loss | - | 2,561 | 2,561 |
| Provision for obsolete stock | 4,024 | - | - |
| Provision for Bad & Doubtful Debts | 26,515 | - | - |
| | **145,491** | **108,371** | **108,371** |

Administration costs are all forms of expenses which the Company incurs in order to run its business other than staff, operating and repairs as well as maintenance cost. During the year the Company spent a total of Kshs 145 Million on administration costs representing an increase by 37% in the current year compared to prior year 2017/2018. This is attributable to an additional provision of Kshs 31 Million for obsolete stock and doubtful debts made during the year. Training expenses during the year decreased from Kshs 7.8 million to Kshs 6.5 million representing a 17% decrease.

The Company reorganized its administrative expenses in line with the remitted government subventions.

| **8. Operating costs** | **2019 Shs'000'** | **Restated 2018 Shs'000'** | **2018 Shs'000'** |
|---|---|---|---|
| Fuel Oil & Lubricants | 128,686 | 105,176 | 105,176 |
| Ferry Insurance | 68,074 | 68,102 | 68,102 |
| Security Services | 73,351 | 69,678 | 69,678 |
| Planning & Research | 307 | 223 | 223 |
| | **270,418** | **243,180** | **243,180** |

Operating costs are all forms of costs associated with the core business of the Company which ensures provision of ferry services. Total cost incurred during the year was Kshs 270 million equal to 20% of the total operating costs and 11% increase compared to last year 2017/2018.

The fuel cost increased by 22% from Kshs 105 Million to Kshs 129Million due to continued increase on the pump rates for diesel coupled with the fact that a new bigger capacity ferry vessel MV Jambo was acquired and commissioned into service from 7th August 2017.

| **9. Board costs** | **2019 Shs'000'** | **Restated 2018 Shs'000'** | **2018 Shs'000'** |
|---|---|---|---|
| Board expense | **13,763** | **16,572** | **16,572** |

These are expenses incurred to cater for all forms of board activities ranging from sitting allowances, duty travel and accommodation. In the financial year 2018/2019, this expenditure decreased by 17% to Kshs 13,763 compared to year 2017/2018. This is attributed to Board Evaluation retreat, Strategic Plan 2017/2018 and Company policy reviews that didn't happen in the current year.

| **10 Repairs and maintenance** | **2019 Shs'000'** | **Restated 2018 Shs'000'** | **2018 Shs'000'** |
|---|---|---|---|
| Workshop Tools & Spares - Ferries | 68,650 | 48,152 | 48,152 |
| MV Maintenance | 1,943 | 621 | 621 |
| Ferry Dry Docking | - | - | 81,237 |
| Furniture and Equipment | 3,995 | 5,936 | 5,936 |
| **Total** | **74,587** | **54,710** | **135,946** |

This a class of costs that takes care of repairs and maintenance of all Company assets including ferry crafts, motor vehicles, furniture and equipment. Cost of repairs and maintenance incurred during the year was Kshs 73 million representing a 40% increase compared to a cost of Kshs 55 million incurred in the last financial year.

| **11. Operating surplus** | **2019** | **Restated 2018** | **2018** |
|---|---|---|---|
| | **Shs'000'** | **Shs'000'** | **Shs'000'** |
| The following items have been charged in arriving at operating surplus: | | | |
| Depreciation on property, plant and equipment (Note 14) | 282,922 | 287,367 | 206,130 |
| Depreciation on investment property (Note 16) | 7,869 | 7,869 | 7,869 |
| Amortisation of prepaid operating lease rentals (Note 17) | 333 | 333 | 333 |
| Auditors' remuneration (note 7) | 1,500 | 1,500 | 1,500 |
| Board expenditures (note 9) | 13,763 | 16,572 | 16,572 |
| Staff costs (Note 6) | **500,179** | **519,259** | **232,404** |

Depreciation of property, plant and equipment has gone down due to charges made against certain classes of assets such as computers, furniture and equipment which have since been fully depreciated in the financial year under review.

| | **2019** | **Restated 2018** | **2018** |
|---|---|---|---|
| **12 Depreciation expense** | **Shs'000'** | **Shs'000'** | **Shs'000'** |
| Depreciation on property, plant and equipment (Note 14) | 282,922 | 287,367 | 206,130 |
| Depreciation on investment property (Note 16) | 7,869 | 7,869 | 7,869 |
| | **290,791** | **295,236** | **213,999** |

| | **2019** | **Restated 2018** | **2018** |
|---|---|---|---|
| | **Shs'000'** | **Shs'000'** | **Shs'000'** |
| **13 Amortisation** | | | |
| Prepaid operating lease rentals | 333 | 333 | 333 |

**14. Property, plant and equipment (continued)**

**Year ended 30 June 2019**

| | Ferry Vessels | Freehold land | Freehold Buildings | Computer & Led screen | Motor vehicles | Furniture & equipments | Driveway, watchtower, Sheds, roads Boat & Garden | Total |
|---|---|---|---|---|---|---|---|---|
| | Shs'000' | Shs'000' | Shs'000' | Shs'000' | Shs'000' | Shs'000' | Shs'000' | Shs'000' |
| **Cost or valuation** | | | | | | | | |
| At start of year | 3,205,551 | 16,537 | 906,884 | 120,428 | 14,143 | 466,660 | 71,175 | 4,801,379 |
| Additions | 94,152 | - | - | 2,435 | - | 724 | 2,586 | 99,897 |
| Transfer | 53,533 | - | - | - | - | - | - | 53,533 |
| At end of year | **3,353,236** | **16,537** | **906,884** | **122,863** | **14,143** | **467,384** | **73,762** | **4,954,809** |
| **Depreciation** | | | | | | | | |
| At start of year | 834,042 | - | 75,753 | 115,539 | 14,143 | 365,877 | 64,704 | 1,470,058 |
| Charge for the year | 231,590 | - | 18,138 | 2,509 | - | 29,037 | 1,648 | 282,922 |
| At end of year | **1,065,632** | **-** | **93,891** | **118,047** | **14,143** | **394,915** | **66,352** | **1,752,980** |
| **Net book value** | **2,287,604** | **16,537** | **812,994** | **4,815** | **-** | **72,469** | **7,409** | **3,201,828** |

Included in property plant and equipment are the following which have been fully depreciated.

| | Cost | Notional Depreciation |
|---|---|---|
| | Shs | Shs |
| Guard rails | 7,366 | 737 |
| Computers & ledscreen | 101,451 | 30,435 |
| Office | 136,493 | 13,649 |
| Motor vehicles | 14,143 | 3,510 |
| Generators, plant, tools, Cranes, CCTV & equipments | 214,533 | 21,453 |
| | **14,602,921** | **69,784** |

**Property, plant and equipment (continued)**

**Year ended 30 June 2018 - Restated**

| | Ferry Vessels Shs '000 | Freehold land Shs '000 | Freehold Buildings Shs '000 | Computer & Led screen Shs '000 | Motor vehicles Shs '000 | Furniture & equipments Shs '000 | watchtower, Sheds, roads Boat & Garden Shs '000 | Total Shs '000 |
|---|---|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | | | |
| At start of year | 1,932,505 | 16,537 | 755,328 | 116,151 | 14,143 | 464,000 | 71,175 | 3,369,840 |
| Additions | 16,641 | - | - | 4,276 | - | 2,660 | - | 23,577 |
| Transfer | 1,256,405 | - | 154,118 | - | - | - | - | 1,410,523 |
| Disposal | - | - | (2,561) | - | - | - | - | (2,561) |
| At end of year | **3,205,551** | **16,537** | **906,884** | **120,428** | **14,143** | **466,660** | **71,175** | **4,801,379** |
| **Depreciation** | | | | | | | | |
| At start of year | 603,969 | - | 57,872 | 109,919 | 14,143 | 336,698 | 62,313 | 1,184,914 |
| Charge for the year | 230,072 | - | 18,189 | 5,619 | - | 29,180 | 2,391 | 285,451 |
| Disposal | - | - | (307) | - | - | - | - | (307) |
| At end of year | **834,042** | **-** | **75,753** | **115,539** | **14,143** | **365,877** | **64,704** | **1,470,058** |
| **Net book value** | **2,371,509** | **16,537** | **831,131** | **4,889** | **-** | **100,782** | **6,471** | **3,331,321** |

**NOTES (CONTINUED)**

**Year ended 30 June 2018**

| | Ferry Vessels | Freehold land | Freehold Buildings | Guard Rails | Computer & Led screen | Motor vehicles | watchtower, Furniture & equipments | Sheds, roads Boat & Garden | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 | Shs '000 |
| **Cost or valuation** | | | | | | | | | |
| At start of year | 1,758,612 | 16,537 | 755,328 | 7,366 | 134,289 | 14,143 | 456,634 | 71,175 | 3,214,084 |
| Additions | - | - | 45,360 | - | 4,276 | - | 2,660 | - | 52,296 |
| Transfer | 1,256,405 | - | 108,758 | - | - | - | - | - | 1,365,163 |
| Disposal | - | - | (2,561) | - | - | - | - | - | (2,561) |
| **At end of year** | **3,015,017** | **16,537** | **906,885** | **7,366** | **138,565** | **14,143** | **459,294** | **71,175** | **4,628,982** |
| **Depreciation** | | | | | | | | | |
| At start of year | 534,189 | - | 57,872 | 7,366 | 128,057 | 14,143 | 329,332 | 62,313 | 1,133,272 |
| Charge for the year | 150,751 | - | 18,189 | - | 5,619 | - | 29,180 | 2,391 | 206,130 |
| Disposal | - | - | (307) | - | - | - | - | - | (307) |
| At end of year | **684,940** | - | **75,753** | **7,366** | **133,676** | **14,143** | **358,512** | **64,704** | **1,339,095** |
| **Net book value** | **2,330,077** | **16,537** | **831,131** | - | **4,889** | - | **100,782** | **6,471** | **3,289,888** |

Property, plant and equipment were professionally valued in October 1996 by Tyson's Limited on the basis of open market value for freehold land and buildings and on replacement cost for all other categories of assets. Ferry vessels were subsequently revalued in July 2012 by Boriz Marine Surveyors Ltd on the basis of replacement cost. The book values of the properties were adjusted to the revalued amounts and the resultant surplus net of other comprehensive income.

All the additions made during the year were made through cash payments.

| **15. Capital work in progress** | **2019 Shs"000"** | **Restated 2018 Shs"000"** | **2018** |
|---|---|---|---|
| At start of year | 1,050,730 | 1,695,286 | 1,695,286 |
| Additions | 342,653 | 637,522 | 637,522 |
| Transfers (note 14) | (53,533) | (1,282,078) | (1,282,078) |
| **At end of year** | **1,339,851** | **1,050,730** | **1,050,730** |

Capital work in progress relates mainly to the costs of on-going but incomplete works on ferries, buildings and other civil works and installations.

| **16. Investment property** | **2019 Shs'000** | **Restated 2018 Shs'000** | **2018 Shs'000** |
|---|---|---|---|
| **Cost** | | | |
| At start of year | 393,446 | 393,446 | 393,446 |
| **Depreciation** | | | |
| At start of year | 70,820 | 62,951 | 62,951 |
| Charge for the year | 7,869 | 7,869 | 7,869 |
| At end of year | 78,689 | 70,820 | 70,820 |
| **Net book value** | **314,757** | **322,626** | **322,626** |

Investment property relates to infrastructure facilities at the mainland side of the operation area which is rented out for rental income.

**17. Prepaid operating lease rentals**

| | **Land Shs'000'** | **Building Shs'000'** | **2019 Shs'000'** | **Restated 2018 Shs'000'** | **2018 Shs'000** |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At start and end of year | 2,000 | 8,000 | 10,000 | 10,000 | 10,000 |
| **Amortisation** | | | | | |
| At start of year | 1,870 | 5,739 | 7,609 | 7,275 | 7,275 |
| Charge for the year (Note 17) | 67 | 267 | 333 | 333 | 333 |
| At end of year | 1,936 | 6,006 | 7,942 | 7,609 | 7,609 |
| **Net book value** | **64** | **1,994** | **2,058** | **2,391** | **2,391** |

The land and buildings on the island side of the channel were leased from KPA for 33 years. The entire facility is used by the Company for its operational activities.

| **18. Intangible assets** | **2019 Shs'000'** | **Restated 2018 Shs'000'** | **2018 Shs'000'** |
|---|---|---|---|
| **Cost** | | | |
| At start and end of year | 18,138 | 18,138 | 18,138 |
| **Amortisation** | | | |
| At start and end of year | 18,138 | 18,138 | 18,138 |
| **Net book value** | - | - | - |

Intangible assets relates to various software used by the Company which include ACCPAC accounting software, payroll software (memory soft) among others. The intangible assets are fully depreciated.

| **19 Inventories** | **2019 Shs'000'** | **Restated 2018 Shs'000'** | **2018 Shs'000'** |
|---|---|---|---|
| Lubricants stocks | 709 | 694 | 694 |
| Stationery stocks | 1,330 | 1,685 | 1,685 |
| Spares parts | 75,804 | 83,464 | 89,468 |
| Hardware & Electricals | 2,093 | 2,921 | - |
| Paints | 2,107 | 3,083 | - |
| Consumables | 841 | - | - |
| | 82,884 | 91,847 | 91,848 |
| **Spare parts** | | | |
| Gross spare parts | 131,867 | 122,075 | 128,079 |
| Less: impairment provisions | (56,064) | (38,611) | (38,611) |
| | **75,804** | **83,464** | **89,468** |

The following is a summary of inventory held by the Company by the end of the financial year. Non-moving stock that were critical especially those associated with the disposed ferries which are no longer in the market were disposed of during the year.

Included in the spare parts for engineering stores are major replacement parts for the ferries which has to be on standby just in case of major breakdowns. The movement of such parts is slow but their inclusion is very critical for uninterrupted ferry service delivery. A major component of this stock is for the purpose of ferry maintenance as indicated below.

The above ferry stock items provided as obsolete stock of Kshs 56 million were being held for the purpose of maintaining MV Pwani and MV Mvita (ferries which have since been disposed) and Caterpillar C3406 series. There entire amounts have been provided for obsolescence.

## 20. Trade and other receivables

| | 2019 Shs'000' | 2018 Shs'000' | 2018 Shs'000' |
|---|---|---|---|
| Trade receivables | 194,030 | 97,490 | 97,490 |
| Less: Provision for bad debts | (67,418) | (40,903) | (40,903) |
| Net trade receivables | 126,613 | 56,587 | 56,587 |
| Deposits and prepayments | 341,600 | 339,863 | 381,295 |
| VAT recoverable | 5,965 | 2,775 | 2,775 |
| Net staff receivables | 6,817 | 11,358 | 11,358 |
| | **480,995** | **410,582** | **452,015** |
| **Staff receivables** | | | |
| Gross staff receivables | 10,037 | 14,577 | 14,577 |
| Less: Provision for impairment | (3,220) | (3,220) | (3,220) |
| **Net staff receivables** | **6,817** | **11,357** | **11,357** |

Movement in trade receivable impairment provisions

| | 2019 Shs'000' | 2018 Shs'000' | 2018 Shs'000' |
|---|---|---|---|
| At start and end of year | 40,903 | 40,903 | 40,903 |
| Addition | 26,515 | - | - |
| **At end of year** | **67,418** | **40,903** | **40,903** |

Trade receivables include both ferry and non-ferry services. The company outsourced non-core activities such as property rent management, and commercial advertising. These debtors have in the past failed to perform as per the spirit of the contract and the matter has been handed to the Company Secretary for action.

The Company advances funds to its staff to enable it carter for various personal effects including school fees for staff pursuing further education, medical expenses for those who may have exhausted their medical cover ceiling as well as for acquisition motor vehicles.

Included in deposits and prepayments is Kshs 282,254,389 down from 564,514,420 being advance payment (30% of cost) for acquisition of new ferry vessels. The amount has been amortized up to 50% in respect of the first vessel MV Jambo which has been delivered and is operational. The other prepayments reflected above constitute marine insurance, general insurance, group life insurance and medical insurance All insurance services are prepaid; the relevant cost is subsequently apportioned over the period of the cover.

The ageing analysis of gross trade receivables is as follows:

| | 2019 Shs | 2018 Shs |
|---|---|---|
| 0 to 30 days | 14,948 | 910 |
| 31 to 60 days | 760 | 137 |
| 61 to 90 days | 81,507 | 617 |
| Over 90 days | 96,815 | 95,825 |
| | **194,030** | **97,489** |

Provision for bad and doubtful debts reflected above relates to amounts considered uncollectible from advertisement services, infrastructure income among other suppliers. Included under staff receivables is advances made to staff. Outstanding provisions largely relates to advances made to staffs who have since been dismissed before full settlement had been made. The outstanding amounts due is however being pursued through the legal process to ensure full recovery.

## 21 Cash and cash equivalents

| | 2019 Shs'000' | 2018 Shs'000' | 2018 Shs'000' |
|---|---|---|---|
| Cash at bank | 201,415 | 325,853 | 325,853 |
| Cash in hand | 100 | 100 | 100 |
| | **201,515** | **325,953** | **325,953** |

The entire amount of cash at bank is held with National Bank of Kenya, Portway branch the Company's main bankers and are as summarized below.

| Account Name. | Account number | Branch | 2019 Shs'000' | 2018 Shs'000' | 2018 Shs'000' |
|---|---|---|---|---|---|
| Expenditure | 01003057007200 | Port house | 4,315 | 3,504 | 3,504 |
| Special | 01003057007201 | Port house | 10 | 20 | 20 |
| Development | 01003057007202 | Port house | 161,438 | 316,725 | 316,725 |
| Collection | 01003057007203 | Port house | 35,653 | 5,604 | 5,604 |
| | | | **201,415** | **325,853** | **325,853** |

Amount held in development account are funds earmarked for acquisition of two ferries, maintenance workshop and integrated security solution projects. Cash in hand relates to funds being utilized for change management at the two Company toll booths.

| **22 Trade and other payables** | **2019 Shs'000'** | **Restated 2018 Shs'000'** | **2018 Shs'000'** |
|---|---|---|---|
| **Current** | | | |
| Trade payables | 146,660 | 174,824 | 174,824 |
| Other payables | 38,193 | 54,081 | 54,081 |
| **Total trade and other payables** | **184,853** | **228,905** | **228,905** |

These refer to all categories of suppliers of goods and services to the Company, including staff, whose payments were outstanding at the close of the financial year 2018/2019. The same shall be paid in the new financial year 2019/2020 as a first charge.

| **23 Cash used in operations** | **2019 Shs'000'** | **Restated 2018 Shs'000'** | **2018 Shs'000'** |
|---|---|---|---|
| Reconciliation of deficit to cash used in operations: | | | |
| Operating surplus | 68,962 | 42,896 | 42,8[illegible] |
| **Adjustments for:** | | | |
| Depreciation on property, plant and equipment (Note 17) | 282,922 | 287,367 | 206,1[illegible] |
| Depreciation on investment property (Note 18) | 7,869 | 7,869 | 7,869 |
| Amortisation of prepaid operating lease rentals (Note 19) | 333 | 333 | 3[illegible] |
| Impairment loss | - | 6,244 | 6,244 |
| Prior year adjustment - Dry docking | - | (151,389) | |
| Transfer from deferred income | (286,474) | (261,059) | (261,05[illegible]) |
| Changes in working capital: | | | |
| - Inventory | 9 | 21,142 | 21,1[illegible] |
| - trade receivables | (70,412) | 306,040 | 264,6[illegible] |
| - Trade and other payables | (44,052) | (16,726) | (16,726) |
| Cash used in operations | (40,843) | 242,716 | 271,4[illegible] |

Reconciliation of operating deficit to cash used in operations

## 24. Share capital

| | 2019 Shs'000' | 2018 Shs'000' |
|---|---|---|
| **Authorised:** | | |
| 5,000,000(2018: 5,000,000) ordinary shares of Shs 100 each | 500,000 | 500,000 |
| **Issued and fully paid:** | | |
| 4,999,040 (2018: 4,999,040) ordinary shares of Shs 100 each | 499,904 | 499,904 |

The Company's shareholding is held by the Government of the republic of Kenya, at 80% interest and by the Kenya Ports Authority at 20%.

## 25. Related party transactions

| i) **Financing from government of Kenya** | 2019 Shs'000' | 2018 Shs'000' |
|---|---|---|
| Recurrent grants | 493,000 | 506,000 |
| Capital grants | 350,000 | 490,000 |
| | **843,000** | **996,000** |

The Government of Kenya owns 80% of the Company's equity interest. There were related party transactions involving the Government of Kenya and KFSL as summarized above.

| ii) **Key management personnel compensation** | 2019 Shs'000' | 2018 Shs'000' |
|---|---|---|
| Salaries and other employment benefits | 35,832 | 32,015 |
| Board expenses | 13,763 | 16,572 |
| | 49,595 | 48,587 |

The Company provides for all employees qualifying with development advances on terms more favorable than available in the market. The benefit obtained is subject to income tax as required under the Income Tax Act. The table below shows earnings for the Company's top management during the year under review.

| 26. **Contingent liabilities** | **2019 Shs'000'** | **2018 Shs'000'** |
|---|---|---|
| Estimated gross claims fatal and non-fatal | 213,795 | 213,795 |
| Claims paid | (159,590) | (159,590) |
| Estimated liabilities | 54,205 | 54,205 |

In the year 1994 a ferry accident occurred at Mtongwe channel which caused loss of life and property both to the Company and to its customers as a result of which litigation proceedings were brought against the Company. A total of 257 fatal and 103 injury cases were registered. Further 3 cases were filed in 2009 and were time barred while 18 cases were never filed.

Based on the previous experience of settled cases the following provisions are made;
The estimated contingent liability is composed of fatal and injury cases of Kshs 85.7million and 60 million respectively. None of these two categories have been paid for the last three years.

## 27. Incorporation

The Company is incorporated in Kenyan Companies Act and is domiciled in Kenya.

## 28 Taxation

Kenya Ferry Services Ltd is a non- commercial state corporation and is not eligible to pay Income Tax.