REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA NATIONAL SHIPPING LINE LIMITED

FOR THE YEAR ENDED 30 JUNE, 2019

KNSL

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2019

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

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

CONTENTS

I. KEY COMPANY INFORMATION

Background information

The *company* was established under the Companies Act (Cap 486) on 2nd November 1987. At cabinet level, the *company* is represented by the Cabinet Secretary for Ministry of Transport, Infrastructure, Housing and Urban Development who is responsible for the general policy and strategic direction of the *company*.

Principal Activities

The principal activity of the *company* is shipping.

Directors

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

1.	Mr. Juvenal J.M. Shiundu	- Chairman	- Appointed on 06.05.2019
2.	Mr. Joseph Juma	- Ag. Managing Director	- Appointed on 17.07.2013
3.	Mrs. Esther Koimett, CBS	- PS, State Dept. of Transport	– Appointed 17.09.2018 (KNSL's Transfer)
4.	Dr. Kamau Thuge	- PS, The National Treasury	
5.	Dr. Arch Daniel O Manduku	- MD, Kenya Ports Authority	
6.	Mr. Farid Ahmed Swaleh	- Director	- Appointed on 12.10.2018
7.	Mr. Jacob Mwarua	- Director	- Appointed on 12.10.2018
8.	Ms. Poline Kanyora	- Director	- Appointed on 12.10.2018
9.	Capt. G Cuomo *	- Director	
10.	Peter Reschke ** (Late)	- Director	- Passed on, not yet replaced.

* Italian ** German

Corporate Secretary
Ms. Addraya Dena – KPA Corporate Secretary
Certified Public Secretary (Kenya)
P.O. Box 88206 - GPO 80100
MOMBASA

Corporate Headquarters
1st Floor, Cannon Towers II
MSA/BLOCK XXI/435, 436 & 437
Moi Avenue
P.O. Box 88206 - 80100
MOMBASA, KENYA

I. KEY COMPANY INFORMATION (continued)

Corporate Contacts
Telephone: (020) 2300015/17, (+254) 700 510592
E-mail: admin@knsl.co.ke
Website: *www.knsl.go.ke*

Corporate Bankers

1. Kenya Commercial Bank Limited
   P.O. Box 90254 - GPO 80100
   MOMBASA

2. Barclays Bank of Kenya Limited
   P.O. Box 90182 - GPO 80100
   MOMBASA

Principal Auditor

1. The Auditor General
   Kenya National Audit Office
   Anniversary Towers, University Way
   P.O. Box 30084 GOP 00100
   NAIROBI, KENYA

Principal Legal Advisers

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

2. Omondi Waweru & Company Advocates
   P.O. Box 1606
   MOMBASA

II. THE BOARD OF DIRECTORS

1.	Mr. Juvenal J.M Shiundu. Chairman, Board of Directors.	Master of Science in Maritime Safety Administration, Bachelor of Science (Hons), Naval Architecture and Ship building	
2.	Dr. Kamau Thuge, EBS. Principal Secretary, The National Treasury.	Doctor of Philosophy (PhD) degree in Economics, Master's degree in Economics, Bachelor of Arts (Economics) degree.	
3.	Mrs. Esther Koimett, CBS Principal Secretary, State Department of Transport	Masters of Business Administration , Bachelor of Commerce	
4.	Dr. Daniel O. Manduku Managing Director, Kenya Ports Authority.	Doctorate of Business administration, Masters of Business Administration, Bachelor of Architecture (B. Arch) Degree	
5.	Mr. Farid Ahmed Swaleh. Director.	Business person	
6.	Ms. Poline Kanyora. Director.	Business person	

II THE BOARD OF DIRECTORS (continued)

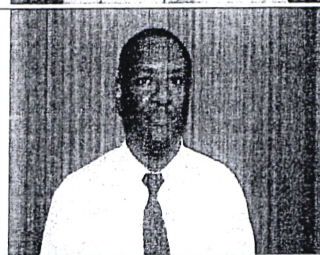
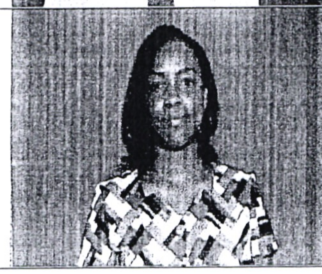
7. Mr. Jacob Mwarua. Director.	Business person	
8. Capt. G. Cuomo. Director.	Business person	
9. Mr. Peter Reschke Director. (Passed on, not yet replaced).	Business person	
10. Mr. Joseph Juma. Acting Managing Director.	MBA, PGD, CPA (K), CPS (K).	
11. Mr. Tom Mokaya Alternate Director, The National Treasury.	Civil Servant	
12. Mr. Julius Segera Alternate Director, State Department of Transport	Civil Servant	
13. Ms. Addraya Dena Company Secretary	Bachelor of Law (Hons) Degree and Diploma in Law from the Kenya School of Law. Certified Public Secretary (Kenya).	
14. Mr. Stephen Kyandih Company Secretary Representative	Bachelor of Law (Hons) Degree and Diploma in Law from the Kenya School of Law.	

II THE BOARD OF DIRECTORS (continued)

Board Committees

Name of the Committee	Members
Finance and General Purpose Committee	1. Mr. Issa Muslim 2. Mr. Tom Mokaya 3. Mr. Farid Swaleh 4. Mr. Jacob Mwarua
Audit and Risk Committee	1. Mrs. Esther Koimett, CBS 2. Dr. Arch Daniel O. Manduku 3. Ms. Poline Kanyora

I MANAGEMENT TEAM

1.	Mr. Joseph Juma Acting Managing Director/ Chief Accountant	MBA, PGD, CPA(K), CPS(K)	
2.	Mr. Gerald Kamau Cost Controller / Administration Manager	Bachelor of Arts - Economics, CPA(K)	
3.	Mr. Joseph Kinyua Container Control Manager	Higher Diploma - Shipping Management	
4.	Mrs. Rollyn Chebosi Management Accountant	Bachelor of Business Administration - Accounting, CPA (K)	

IV. CHAIRMAN'S STATEMENT

The Chairman wishes to present the financial statements for the year ended June 30, 2019.

The company registered a loss of Kshs 46.99 million and Kshs 42.83 million for the year ending 30 June 2019 and year ending 30 June 2018 respectively. The Company performance was affected by lack of service provision.

The Government is committed to restructure the Company under the Blue Economy sector, a process which is undergoing. The Directors and Management are pursuing a number of strategies to ensure the Company returns to profitable trading. These measures include revival of the company, partnering with a service provider, resolving shareholding structure and developing a Business Plan in line with the restructure.

The short-term objectives of the Company are:

(i) To position KNSL as a preferred Company in leveraging our national status to attract new market opportunities.
(ii) To develop business models that will sustain the company.
(iii) To build high performing organization and improve work environment.
(iv) Provide our customers with competitive, efficient and consistent global shipping service.

KNSL Board is committed to upholding high standards of corporate governance. The day-to-day running of the business of the company's system of internal control is bestowed on the Managing Director.

There were no governance issues among the Board or member of the Board and top management including conflict of interest

Juvenal J.M. Shiundu
Chairman, Board of Directors

V. REPORT OF THE MANAGING DIRECTOR

KNSL was formed in 1987 under the Company's Act and is the National Carrier of the Kenya Government. At the time, the Shareholders included the Kenya Government through Kenya Ports Authority (KPA) with majority shares together with two foreign investors DEG and UNIMAR. Later on in 1997 the company's shareholding was re-organized to bring into the fold a strategic partner Mediterranean Shipping Company (MSC) through Heywood Shipping Co. Ltd (formerly UAL) as an additional shareholder.

The company is based in Mombasa with a branch office in Nairobi and operates as a Non-Vessel Owning Common Carrier (NVOCC) which charters slot from Mediterranean Shipping Company (MSC). Also, KNSL uses other shipping lines for cargo destined to various ports of the world. Aside from the direct shipping business, KNSL offers Agency and inland haulage services. KNSL is a Principal to various Agents spread in greater parts of Europe, Mediterranean region and East Africa.

The company ships containerised cargo through MSC mainly to European ports such as Felixstowe, Barcelona, Antwerp, Hamburg, Bremen, Rotterdam, Le Havre, Lisbon and Lexoies. KNSL also calls to other ports in the world through other shipping lines though in a limited way.

The company reported a loss of Kshs 46.99 million and Kshs 42.83million for the year ending 30 June 2019 and 30 June 2018 respectively.

The overall indication given by the financial position statement as at 30 June 2019 is that of negative net current assets. This implies that the company cannot meet, at least in the short term, its current obligations from the existing current assets.

In the year 2018/19, the Company performed poorly due to below challenges:

(i) Withdrawal of service provision.

(ii) Lack of own equipments.

(iii) Lack of supportive policies and friendly legal regime.

(iv) Lack of business support from Government.

(v) Narrow ports of call.

(vi) Outstanding debts.

V REPORT OF THE MANAGING DIRECTOR (Continued)

However, the Directors and management are pursuing a number of strategies to ensure the company returns to profitable trading. These measures include:

(i) Restructuring of the company.

(ii) Partnering with a service provider – the company is in the process of seeking service providers to ensure it offers global shipping services.

(iii) Resolving shareholding structure.

With the expected implementation of above strategies, the financial statements have been prepared on the going concern basis.

Joseph Juma
Ag. Managing Director

VI. CORPORATE GOVERNANCE STATEMENT

Corporate governance is the process and structure used to direct and manage the business affairs of the Company in order to enhance prosperity, corporate performance and accountability. KNSL Board is committed to upholding high standards of corporate governance.

The day-to-day running of the business of the company's system of internal control is bestowed on the Managing Director,

The role of the Board includes to:

a) Exercise leadership, integrity and sound judgement in directing KNSL to achieve continued prosperity;
b) Review, evaluate and approve KNSL strategic business and operational plans and ensure that the company has sufficient and appropriate resources to achieve its goals;
c) Ensure that effective processes and systems of risk management and internal controls are in place;
d) Review, evaluate and approve the overall organizational structure, the assignment of senior management responsibilities and plans for senior management development and succession;
e) Review, evaluate and approve the remuneration structure of the organization;
f) Adopt, implement and monitor compliance with the organization's code of conduct and ethics;
g) Review on a quarterly basis the attainment of targets and objectives set out in the agreed performance measurement framework with the Government of Kenya;
h) Protect the rights of shareholders and optimize shareholder value;
i) Enhance the organization's public image and ensure engagement with stakeholders through effective communication; and
j) Monitor compliance with the constitution, all applicable laws, regulations and standards.

Board Committees

The Board discharges its functions through committees. KNSL has two Board Committees:

1. Finance and General Purpose Board Committee.
2. Audit and Risk Board Committee.

VI CORPORATE GOVERNANCE STATEMENT (Continued)

There were four BOD meetings held during the year as below:

Date of meeting	Number of Members Present	Number of Members absent with apology
17th July 2018	10	2
29th October 2018	10	2
29th January 2019	10	2
18th March 2019	10	1

Out of the twelve BOD members, three are independent directors. The chairman is appointed on a different date from the other three Board of Directors appointed through gazette notice.

The Directors underwent Board induction in March 2019 and are trained from time to time on emerging issues. The Board of Directors are usually evaluated by the State Corporations Advisory Committee and are remunerated as per the Salaries and Remuneration Commission guidelines. The directors are paid sitting allowance while the chairman is paid honorarium.

During the year 2018/19 there was no reported case of conflict of interest.

VII. MANAGEMENT DISCUSSION AND ANALYSIS

SECTION A: OPERATIONAL AND FINANCIAL PERFORMANCE

As at June 30, 2019 the company had a shareholders' deficit of Sh 465,633,870 (2018: Sh. 418,646,792) and its current liabilities exceeded its current assets by Sh 48,821,630 (2018: Sh. 36,643,117) primarily because of the trading losses made in the past years. It also incurred a loss for the year ended 30 June 2019 of Sh 46,987,078 (2018: Sh. 42,829,527).

In the year ending June 30, 2019, the company performed poorly due to lack of service provision. The company therefore relied on alternative service routes which are uncompetitive and have minimal profit margin which cannot cover fixed operation costs. This led to loss of numerous bookings with the Company managing to register a lifting of 144 Teus in the year 2018/19.

The Directors and management are pursuing a number of strategies to ensure the Company returns to profitable trading. These measures include:

(i) Restructuring of the company.

(ii) Partnering with a service provider – the company is in the process of seeking service providers to ensure it offers global shipping services.

(iii) Resolving shareholding structure.

With the expected implementation of above strategies, the company is expected to make profit in near future.

SECTION B: COMPLIANCE WITH STATUTORY REQUIREMENTS

KNSL has been remitting its statutory deductions like PAYE, NHIF, NSSF, HELB and Pension on time as required by law.

SECTION C: KEY PROJECTS AND INVESTMENT DECISIONS

Currently the company has no projects being implemented due to limited resources. However, upon restructuring KNSL will undertake key projects which will be included in the Business Plan.

VII MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

SECTION D: MAJOR RISKS

(i) **Operational Risk**

The company operates as a Non-Vessel Owning Common Carrier (NVOCC) which charters slot from Mediterranean Shipping Company (MSC). KNSL uses other shipping lines for cargo destined to various ports of the world which creates operational risks in case such services are withdrawn by the service provider.

(ii) Financial risk management

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

(iii)Foreign currency risk management

The company undertakes certain transactions denominated in foreign currencies primarily in US Dollars. The fluctuations in currency exchange rates result in changes in the value of monetary assets and monetary liabilities denominated in foreign currencies hence exposures to the risk of incurring exchange losses. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

(iv)Credit risk management

The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The credit risk on trade receivables is limited because the customers are known to be customers with high credit ratings. The credit risk on liquid funds with financial institutions is also low, because the counter parties are banks with high credit-ratings.

(v) **Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the company's short and medium-term funding and liquidity management requirements. The company manages liquidity risk by maintaining banking facilities through continuous monitoring of forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

VII MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

SECTION E: MATERIAL ARREARS IN STATUTORY & OTHER FINANCIAL OBLIGATIONS

The company current liabilities increased from Ksh 69.41 million in the year ending June 30, 2018 to Kshs 72.16 million in the year June 30, 2019.

SECTION F: THE ENTITY'S FINANCIAL PROBITY AND SERIOUS GOVERNANCE ISSUES

KNSL Board is committed to upholding high standards of corporate governance. The day-to-day running of the business of the company's system of internal control is bestowed on the Managing Director,

There were no governance issues among the Board or member of the Board and top management including conflict of interest

VI CORPORATE SOCIAL RESPONSIBILITY

Tree Planting Activity

On 17th November 2018, Kenya National Shipping Line staff members together with the Kenya Forest Services representative, area Chief, Community leaders and Mombasa Kilindini Community Forest Association (MOKICFA) representatives participated in mangrove planting event at Majaoni, Kisauni Constituency in Mombasa, in support of the National Tree Panting Program which is set up by the Ministry of Environment and Forestry. During the event, over 1,200 mangrove seedlings were planted at Majaoni, Mtwapa creek.

Area residents have been working together with the Government to plant mangroves and protect their own coastlines from erosion as a result of education and awareness on mangrove importance and planting carried out by the Ministry of Environment and Forestry.

VII CORPORATE SOCIAL RESPONSIBILITY (Continued)

Maintenance Plan

KNSL committed to continue working closely with the Majaoni community residents to support the efforts towards the restoration of the mangroves, which had been degraded by community activities, licensed commercial loggers, and chalk manufacturing industries which used the mangroves as firewood.

IX. REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITY

The principal activity of the company is the provision of shipping services.

RESULTS

The results of the company for the year ended June 30, 2019 are set out on page 21-25.

DIRECTORS

The members of the Board of Directors who served during the year are shown on page 4-5.

Mr. Edward Karani resigned on 9th March 2019 and was replaced by Mr. Juvenal J.M. Shiundu on 6th May 2019.

Mrs. Nancy Karigithu resigned on 17th September 2018 and was replaced by Mrs. Esther Koimett on 17th September 2018 (KNSL's Transfer).

AUDITORS

The Auditor General is responsible for the statutory audit of the entity in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015, which also empowers the Auditor General to appoint an auditor to audit on his behalf.

By Order of the Board

Corporate Secretary
Mombasa

Date: ……………

X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Public Finance Management Act, 2012 and the Kenya Company's 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/period 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 judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the Kenya Company's 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.

The directors acknowledge that the continued existence of the company as a going concern depends on the continued success of the various strategic measures that are being pursued by the directors to achieve optimal volumes of cargo handled to return the company to profitable trading and continued financial support from shareholders. The directors are of the view that, once these measures are fully implemented, the company's solvency will be restored and it will trade profitably for the foreseeable future.

Approval of the financial statements

The *company's* financial statements were approved by the Board on 20/08/ 2019 and signed on its behalf by:

Director   Director

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR GENERAL

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA NATIONAL SHIPPING LINE LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya National Shipping Line Limited as set out on pages 21 to 47, which comprise the statement of financial position as at 30 June, 2019, and the 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 the Kenya National Shipping Line 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 the Companies Act, 2015.

Basis for Qualified Opinion

1. Going Concern

As previously reported, the statement of comprehensive income for the year ended 30 June, 2019 reflects a net loss from operations of Kshs.46,987,078 resulting in an accumulated deficit of Kshs.465,633,970. Further, the current liabilities balance of Kshs.72,165,410 exceeded the current assets of Kshs.23,343,780 resulting in a negative working capital of Kshs.48,821,630 as at 30 June, 2019. The Directors have stated that the Company's going concern depends on implementation of various strategies, whose success is yet to be realized. Under the circumstances, the financial statements have been prepared on a going concern basis on the assumption that the entity will continue to get financial support from the National Government and creditors.

2. Bank and Cash Balances

Note 22 to the financial statements reflects bank and cash balances totalling Kshs.2,725,078 as at 30 June, 2019. Included in the balance is an amount of Kshs.67,351 in respect of a bank balance held at Barclays Bank of London (US Dollar Account). However, the supporting bank statement and certificate of bank balance were not availed for audit verification.

Consequently, the existence of the bank balance of Kshs.67,351 and the accuracy of cash and bank balances of Kshs.2,725,078 as at 30 June, 2019 could not be confirmed.

3. Unsupported Administration Expenses

Section 104(1) of the Public Finance Management (National Government) Regulations, 2015 requires that, all receipts and payment vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and the appropriate authority and documentation. However, and as disclosed under note 12 to the financial statements, the statement of comprehensive income reflects administration costs of Kshs.20,995,845 which includes Kshs.2,124,711 not supported by appropriate documentation.

Under the circumstances, the accuracy and completeness of expenditure of Kshs.2,124,711 could not be confirmed.

4. Taxation

Note 13 (a) to the financial statements for the year ended 30 June, 2019 reflects nil balance in respect of tax charge since the Company recorded a loss of Kshs.46,987,078. However, the recorded loss of Kshs. 46,987,078 was not adjusted to determine the tax loss as required by International Accounting (IAS) Standard No. 12 paragraph 5 which states that, 'Taxable profit (tax loss) is the profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable)'.

Consequently, the accuracy of the tax loss amounting to Kshs.46,987,078 for the year ended 30 June, 2019 could not be confirmed.

5. Trade and Other Receivables

5.1 Unsupported Trade Receivables

Note 21(a) to the financial statements for the year ended 30 June, 2019 reflects a trade receivables balance of Kshs.38,170,111. Included in the balance are trade receivables of Kshs.34,474,707 whose support schedule does not have invoice details to confirm when services were rendered. Further, customer statements of account to confirm when the services were rendered were also not availed for audit verification.

Consequently, the accuracy, validity and recoverability of trade receivables balance of Kshs.34,474,707 as at 30 June, 2019 could not be confirmed.

5.2 Provision for Bad and Doubtful Debts

Note 21(a) to the financial statements for the year ended 30 June, 2019 further reflects gross trade and other receivables balance of Kshs.71,534,998 and Kshs.51,431,999 in respect to provision for bad and doubtful trade receivables, resulting to net trade and other receivables balance of Kshs.20,102,999. However, Management did not provide a debtors age analysis for audit review to confirm that the provision was in line with the Company's bad and doubtful debts policy, contrary to Paragraph 8 of the Kenya National Shipping Line Limited's Finance Policy, which states that 'unsettled debts for a period under two years shall attract 50% provision for bad and doubtful debts while those remaining outstanding for over two years shall attract 100% provision for bad and doubtful debts'.

Consequently, the accuracy, validity and recoverability of net trade and other receivables of Kshs.20,102,999 as at 30 June, 2019 could not be confirmed.

6. Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.45,490,224 as at 30 June, 2019. Included in this balance is Kshs.4,360,119 in respect to Pay-As-You Earn (PAYE) due on or before March, 2017 which had not been remitted to the Kenya Revenue Authority as at 30 June, 2019. No explanation was provided for non-remittance of the statutory deductions neither was a provision made in the financial statements for the accruing penalties and interest.

Further, included in the trade and other payables balance is an amount of Kshs.5,496,106 due to two (2) container leasing companies. These companies are said to have stopped sending invoices for container leasing charges and monthly statements in respect of the amount due. The amount disclosed in the financial statements is therefore based on outstanding balances when statements were last received from the container leasing companies, hence not up to date nor supported.

Consequently, the accuracy, validity and completeness of trade and other payables balance of Kshs.45,490,224 as at 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya National Shipping Line 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.

Emphasis of Matter

Share Capital - Long Outstanding Funds Awaiting Allotment

As previously reported, and as disclosed in Note 23 to the financial statements, the statement of financial position as at 30 June, 2019 reflects funds awaiting allotment of shares balance of Kshs.73,681,500 equivalent to 147,363 shares, being additional shares to be shared between the Kenya Ports Authority - 38,670 shares and a new shareholder, Mediterranean Shipping Company (MSC) under the name of Heywood Shipping Company Limited (formerly United Agencies Limited) -108,693 shares. Available information, revealed that at their 24th meeting held on 31 July, 1997, the Board of Directors through a special resolution by the three (3) initial shareholders namely: Kenya Ports Authority, Unimar and DEG introduced a strategic partner M/s. Mediterranean Shipping Company. Although, the strategic partner paid a sum of Kshs.54,346,500, it is not clear how the strategic partner was identified and allotted 108,693 new shares.

If the above is effected, the allotment of the shares would result to dilution of investment of the Kenya Ports Authority by 21.8% from 74.8% to 53% of the ordinary shareholding in the Company. The National Treasury has, however, provided a roadmap that will ensure that all the necessary steps will be followed in order to adhere to the laws, regulations and procedures for ensuring that public interest is upheld. Further, The National Treasury has also given an undertaking on the Kenya National Shipping Line Limited shareholding, undertaking to conduct due diligence before finalization of the transaction, obtain clearance from the Attorney General and subsequent approval from the Cabinet.

My opinion is not modified in respect of this matter.

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 Performance

The statement of comparison of budget and actual amounts for the year ended 30 June, 2019 reflects actual receipts totalling Kshs.46,083,949 against an approved budget of Kshs.99,881,000 resulting in net under-collection of Kshs.53,797,051 or 54% of the total budget. Further, actual expenditure for the year amounted to Kshs.48,481,027 against a budget of Kshs.99,881,000 resulting in an under expenditure of Kshs.51,106,973 or 51% of the total budget.

The under-collection and under-expenditure, which occurred under all budget items, may hinder the Company's achievement of the set objectives. Management should therefore review the budget making process with a view to developing a more realistic budget.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Employment Costs

Note 11 to the financial statements reflects employment costs of Kshs.26,767,091 for the year ended 30 June, 2019. Included in this balance is Kshs.18,985,000 in respect of salaries and wages, out of which an amount of Kshs.316,796 is overpayment of salary to the Chief Accountant who was doubling as the Acting Managing Director. The overpayment is a result of 10% increment approved by the Board on 29 October, 2018 to a monthly basic salary of Kshs.290,397 against the maximum basic salary of Kshs.263,997 set by the Salaries and Remuneration Commission (SRC).

Further, the officer was paid a monthly telephone allowance of Kshs.40,000 totalling Kshs.480,000 during the year under review. Although the allowance was approved by the Board on 20 March, 2015, Ministerial and Salaries and Remuneration Commission's approval of the same was not availed for audit review. This is contrary to the State Corporations Act, Cap.446 Section 4(3) which states that, 'a state corporation may engage and employ such number of staff, including the Chief Executive, on such terms and conditions of service as the Minister may, in consultation with the Committee, approve'.

In addition, the salaries and wages includes Kshs.522,714, being allowances paid to the Managing Director who has been serving in an acting capacity for six (6) years, contrary to Section C.14 (1) of the Public Service Commission; Human Resources Policies Manual of May, 2016 which states that, 'when an officer is eligible for appointment to a higher post and is called upon to act in that post pending advertisement of the post, he/she is eligible for payment of acting allowance at the rate of twenty percent (20%) of his substantive basic salary and that acting allowance will not be payable to an officer for more than six (6) months'.

Consequently, the validity of Kshs.1,319,510 on employment costs for the year ended 30 June, 2019 could not be confirmed.

2. Pension Fund Contributions

Note 11 to the financial statements for the year ended 30 June, 2019 reflects pension fund contributions by the employer of Kshs.3,262,690. However, records availed for audit review indicated that the amount comprises employer contribution of 20% of the basic salary plus house allowance instead of Kshs.2,867,243 based on basic salary only, contrary to the Treasury Circular No. 18/2010 of 24 November, 2010 which states that, 'personal emoluments must be defined as basic salary excluding housing, transport and any other allowances or fluctuating emoluments'. The contravention of the circular resulted in a higher contribution by the employer by Kshs.395,447.

Consequently, Management is in breach of the Law.

3. Internal Audit Function

The financial statement for the year ended 30 June, 2019 indicated under Corporate Governance Statement that the Board discharges its functions through committees which includes an Audit and Risk Board Committee. However, information provided and review of the organizational structure and establishment indicated that the Company does not have an internal audit function contrary to the Public Finance Management Act, 2012 Section 73(1)(a) which states that. 'Every national government entity shall ensure that it complies with this Act and has appropriate arrangements in place for conducting internal audit according to the guidelines of the Accounting Standards Board'.

Consequently, the Management is in breach of the Law.

4. Risk Management Policy

The financial statement for the year ended 30 June, 2019 indicated under Section D of Management Discussion and Analysis that the Company's major risks included operational, financial, foreign currency, credit and liquidity risks. However, information provided for audit and through discussions held with the management revealed that the Company has not developed risk management policy and fraud prevention strategy contrary to Section 165 of the Public Finance Management (National Government) Regulations, 2015 which states that 'the Accounting Officer shall ensure that the national government entity develops risk management strategies, which include fraud prevention mechanism and a system of risk management and internal control that builds robust business operations.

Consequently, the Management is in breach of the Law.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and 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 Companies Act No.17 of 2015, I report based on my 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 the audit;

ii. In my opinion, adequate accounting records have been kept by the Kenya National Shipping Line Limited, so far as appears from the examination of those records; and,

iii. The financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and those Charged with Governance

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 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, Management is responsible for assessing Kenya National Shipping Line Limited's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless Management is aware of the intention to liquidate the Company or to cease operations.

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public money is applied in an effective manner in line with Article 229(6) of the Constitution of Kenya, 2010.

Those charged with governance are responsible for overseeing Kenya National Shipping Line Limited'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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the 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 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 the Kenya National Shipping Line 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 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

05 February, 2021

XII. STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2019

	Note	2019	2018
		Kshs	Kshs
REVENUES			
Service Income	8	665,968	932,312
Other Income	9	508,504	780,802
TOTAL REVENUES		**1,174,472**	**1,713,114**
OPERATING EXPENSES			
Service Costs	10	(18,076)	(207,161)
Employment Costs	11	(26,767,091)	(25,822,126)
Administration Costs	12	(20,995,845)	(19,139,303)
Depreciation Expenses	15	(98,509)	(141,938)
Amortisation of Intangible Assets	16	(31,551)	(31552)
TOTAL OPERATING EXPENSES		**(47,911,072)**	**(45,342,080)**
OPERATING LOSS		**(46,736,600)**	**(43,628,966)**
Finance Income	17	118,727	1,417,181
Gain on Disposal of Non-financial Assets	18	200,750	-
Finance Costs	19	(569,955)	(617,742)
LOSS BEFORE TAXATION		**(46,987,078)**	**(42,829,527)**
TAXATION CHARGE	13	-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(46,987,078)	(42,829,527)

XIII. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Note	2019 Kshs	2018 Kshs
ASSETS			
Non-Current Assets			
Vehicles and equipment	15	292,949	329,963
Intangible assets	16	189,311	220,862
		482,260	**550,825**
Current Assets			
Inventories & Stores	20	515,703	480,971
Trade and other receivables	21	20,102,999	17,601,704
Bank and cash balances	22	2,725,078	14,684,073
		23,343,780	**32,766,748**
TOTAL ASSETS		**23,826,040**	**33,317,573**
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	23	93,523,000	93,523,000
Funds awaiting allotment of shares	23	73,681,500	73,681,500
Capital Grants From Government	23	250,090,000	215,350,000
Accumulated deficit		(465,633,870)	(418,646,792)
Capital and Reserves		**(48,339,370)**	**(36,092,292)**
Current Liabilities			
Trade and other payables	24	45,490,224	42,744,970
Due to related party	25	26,675,186	26,664,895
		72,165,410	**69,409,865**
TOTAL EQUITY AND LIABILITIES		**23,826,040**	**33,317,573**

The financial statements were approved by the Board on 20/09/ 2019 and signed on its behalf by:

Chairman of the Board
Juvenal J.M. Shiundu

Ag. Managing Director
Joseph Juma
ICPAK M/No: 9945

XIV. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2019

	Ordinary share capital	Funds awaiting allotment of shares	Capital Grants From Government	Accumulated deficit	Total
At July 1 , 2017	**93,523,000**	**73,681,500**	**160,000,000**	**(375,817,265)**	**(48,612,765)**
Total comprehensive loss for the year	-	-	-	(42,829,527)	(42,829,527)
Capital Grants From Government	-	-	45,500,000	-	45,500,000
Capital Grants From Government –Blue Economy			9,850,000	-	9,850,000
At June 30, 2018	**93,523,000**	**73,681,500**	**215,350,000**	**(418,646,792)**	**(36,092,292)**
At July 1 , 2018	**93,523,000**	**73,681,500**	**215,350,000**	**(418,646,792)**	**(36,092,292)**
Total comprehensive loss for the year	-	-	-	(46,987,078)	(46,987,078)
Capital Grants From Government	-	-	44,590,000	-	44,590,000
Capital Grants From Government – Refund to Blue Economy	-	-	(9,850,000)	-	(9,850,000)
At June 30, 2019	**93,523,000**	**73,681,500**	**250,090,000**	**(465,633,870)**	**(48,339,370)**
			(Note 23)	(Note 23)	

XV. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2019

	Note	2019 Kshs	2018 Kshs
OPERATING ACTIVITIES			
Cash used in operations	27	(46,637,500)	(48,504,307)
Interest received		-	-
Net cash used in operating activities		**(46,637,500)**	**(48,504,307)**
INVESTING ACTIVITIES			
Purchase of equipment	15	(61,495)	(88,362)
Purchase of Intangible Assets	16	-	(252,414)
Proceeds from disposal of equipment		-	-
Net cash generated from/(used in) investing activities		**(61,495)**	**(340,776)**
FINANCING ACTIVITIES			
Proceeds from capital injection	23	44,590,000	45,500,000
Proceeds/(Refund) of Government Grants from Blue Economy	23	(9,850,000)	9,850,000
Net cash generated from financing activities		**34,740,000**	**55,350,000**
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(11,958,995)**	**(6,504,917)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**14,684,073**	**8,179,156**
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**2,725,078**	**14,684,073**

XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2019

	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Performance Difference	Explanation of Material Variance
	2018-2019	2018-2019	2018-2019	2018-2019	2018-2019	
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs	
Service Income	55,291,000	-	55,291,000	665,968	(54,625,032)	Minimal trading due to lack of service.
Government grants	45,500,000	(910,000)	44,590,000	44,590,000	-	
Finance Income		-	-	118,727	118,727	Budgeted foreign exchange gain not realised.
Other income	-	-	-	709,254	709,254	Minimal miscellaneous income and net gain from disposal of assets.
Total income	**100,791,000**	**(910,000)**	**99,881,000**	**46,083,949**	**(53,797,051)**	
Expenses						
Service Costs	39,964,000	-	39,964,000	18,076	(39,945,924)	Minimal trading due to lack of service.
Employment Costs	26,674,000	200,000	26,874,000	26,767,091	(106,909)	Some job positions remained unfilled.
Administration Costs	20,926,000	(400,000)	20,526,000	12,362,511	(8,163,489)	General savings from variable expenses.
Board Expenses	9,790,000	(910,000)	8,880,000	5,829,534	(3,050,466)	General savings from BOD expenses.
Rent Expenses	2,612,000	200,000	2,812,000	2,803,800	(8,200)	General savings from variable expenses.
Depreciation Expenses	62,000	-	62,000	130,060	68,060	No new assets were purchased as budgeted due to lack of development funds.
Finance cost	470,000	-	470,000	569,955	99,955	Resulted from foreign exchange losses.
Total expenditure	**100,498,000**	**(910,000)**	**99,588,000**	**48,481,027**	**(51,106,973)**	
Surplus/(Deficit) for the period	293,000	-	293,000	(2,397,078)	(2,690,078)	

XVII. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Kenya National Shipping Line Ltd is established by and derives its authority and accountability from Kenya Company's Act. The entity is owned by the Government of Kenya through the Kenya Ports Authority and foreign investors. The Company is domiciled in Kenya and the principal activity is shipping services.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

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

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

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

Standard/Amendment to a standard	Effective date	Impact
Amendments to IAS 16 and IAS 38 titled *Clarification of Acceptable Methods of Depreciation and Amortisation (issued in May 2014)*	1st Jan 2016	The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances. As the company has not revalued its plant and equipment and intangible assets, the application of the amendments had no impact on the disclosures or on the amounts recognised in the company's financial statements.

XVII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)

Amendment to IFRS 7 *(Annual Improvements to IFRSs 2012–2014 Cycle , issued in September 2014*	1st Jan 2016	The amendment, applicable to annual periods beginning on or after 1 January 2016, adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset. The application of this interpretation has had no material impact on the disclosures or on the amounts recognised in the company's financial statements.
Amendments to IAS 1 titled *Disclosure Initiative (issued in December 2014)*	1st Jan 2016	The amendments, clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The application of this interpretation has had no material impact on the disclosures or on the amounts recognised in the company's financial statements.
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12	1st Jan 2017	The amendments clarify that: • Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. • The carrying amount of an asset does not limit the estimation of probable future taxable profits. • Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type. The application of this interpretation has had no material impact on the disclosures or on the amounts recognised in the company's financial statements.

XVII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)

Disclosure Initiative (Amendments to IAS 7: Statement of Cash flows)	1st Jan 2017	The amendments' objective is that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. The application of this interpretation has had no material impact on the disclosures or on the amounts recognised in the company's financial statements.

(ii) **Amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019**

Standard	Effective Date	Impact
FRS 15 *Revenue from Contracts with Customers (issued in May 2014)*	1 Jan 2018	The new standard, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance.

XVII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)

IFRS 9 *Financial Instruments (issued in July 2014)*	1 Jan 2018	This standard will replace IAS 39 (and all the previous versions of IFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition: • IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics. • o For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch • For the impairment of financial assets, IFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised. • For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and nonfinancial risk exposures. • The derecognition provisions are carried over almost unchanged from IAS 39. •
IFRS 16: *Leases (issued in January 2016)*	1 Jan 2019	The new standard introduces a new lessee accounting model, and will require a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The Directors of the Company do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

(iii) **Early adoption of standards**

The Company did not early – adopt any new or amended standards in year 2019.

XVII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) **Revenue recognition**
Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is recognised 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) **Service Income** is recognised in the year in which the Company renders the shipping services to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

ii) **Grants from National Government** are recognised in the year in which the *entity* actually receives such grants. Recurrent grants and Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income.

iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.

iv) **Other income** is recognised as it accrues.

b) **Vehicles and equipment**
Vehicles and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

c) **Depreciation**
Depreciation on vehicles and equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset over their expected useful lives at the following annual rates:

Vehicles	25%
Furniture, fittings and equipment	12.5%
Computers	33.33%
Containers	25%

A full year's depreciation charge is recognised both in the year of asset purchase and in the year of asset disposal.

d) **Intangible Assets**
Computer software costs are recognised as intangible assets and are stated at cost less accumulated amortisation. Acquisition costs are amortised on the straight- line basis over the expected useful lives, not exceeding a period of three years.

e) **Impairment**
At the end of each reporting period, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount in which case the impairment loss is treated as a decrease in the revaluation surplus.

XVII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) **Accounting for leases**
Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the company as a lessee. All other leases are classified as operating leases.

The company as lessee
Rentals payable under operating leases are charged to the profit or loss on a straight line basis over the term of the relevant lease.

g) **Inventories**
Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, transportation and handing charges, and is determined on the moving average price method.

h) **Trade and other receivables**
Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

i) **Taxation**
Income tax expense represents the sum of the tax currently payable and deferred tax. Current taxation is provided on the basis of the results for the period as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred tax is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, while deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be generated against which the unused tax losses and unused tax credit can be utilised.

j) **Cash and cash equivalents**
For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, bank balances net of outstanding bank overdrafts and short term deposits. Short term deposits are liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired.

Bank account balances include amounts held at various Commercial Banks at the end of the reporting period.

k) **Trade and other payables**
Trade and other payables 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 entity or not, less any payments made to the suppliers.

l) **Retirement benefit obligations**

The company operates a defined contribution scheme for all full-time employees. The scheme is administered by an independent fund manager and is funded by contributions from both the company and its employees.

The Company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Fund Act. The company's obligations under this scheme is limited to specific contributions legislated from time to time and is currently at Ksh. 200 per employee per month.

XVII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) **Provision for staff leave pay**
Employees' entitlements to annual leave are recognised as they accrue at the employees. Provision is made for the estimated liability for annual leave at the reporting date.

n) **Exchange rate differences**
The accounting records are maintained in the functional currency of the primary economic environment in which the entity 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 transactions 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.

o) **Budget Information**
The original budget for FY 2018-2019 was approved by the National Assembly. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

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

p) **Comparatives**
Where necessary, comparative figures have been adjusted to conform with changes in presentation during the current year.

q) **Subsequent events**
There have been no events subsequent to the financial year end with a significant impact on the financial Statements for the year ended June 30, 2019.

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

In the application of the company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

XVII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY (Continued)

The key areas of judgment in applying the entities accounting policies and sources of estimation uncertainty are dealt with below:

(a) Critical judgements in applying accounting policies

There are no critical judgments, apart from those involving estimations [see (b) below], that the directors have made in the process of applying the group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

(b) Key sources of estimation uncertainty

Impairment losses

At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Vehicles, equipment and intangible assets

Critical estimates are made by the directors in determining depreciation rates for vehicles, equipment and intangible assets.

Contingent liabilities

As disclosed in note 26 to these financial statements, the company is exposed to various contingent liabilities in the normal course of business including certain pending audits with Kenya Revenue Authority and a number of outstanding legal cases. The directors evaluate the status of these exposures on a regular basis to assess the probability of the company incurring related liabilities. However, provisions are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established.

6. **GOING CONCERN**

As at June 30, 2019 the company had a shareholders' deficit of Sh 465,633,870 (2018: Sh. 418,646,792) and its current liabilities exceeded its current assets by Sh 48,821,630 (2018: Sh. 36,643,117) primarily because of the trading losses made in the past years. It also incurred a loss for the year ended 30 June 2019 of Sh 46,987,078 (2018: Sh. 42,829,527).

The directors and management are pursuing a number of strategies to ensure the company returns to profitable trading. These measures include the ongoing restructuring of the Company.

On this basis, the directors consider it appropriate to prepare the financial statements on the going concern basis.

XVII NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. LOSS BEFORE TAXATION

The loss before taxation is arrived at after charging / (crediting):

	2019 Kshs	2018 Kshs
Auditors' remuneration	450,000	450,000
Bad debts less recoveries	(51,849)	(602,288)
Depreciation on motor vehicles and equipment	98,509	141,938
Amortisation of Intangible Asset	31,551	31,552
Employments costs	26,767,091	25,822,126
Operating lease rentals	2,803,800	2,452,078

8. SERVICE INCOME

	2019 Kshs	2018 Kshs
Terminal Handling Charges (THC)	18,051	94,014
Container Demurrage Revenue	1,680	8,400
Miscellaneous Revenue - Local	646,237	829,898
	665,968	932,312

9. OTHER INCOME

	2019 Kshs	2018 Kshs
Other Miscellaneous receipts	508,504	780,802
	508,504	780,802

10. SERVICE COSTS

	2019 Kshs	2018 Kshs
Discharging Charges	15,540	40,007
Containers Costs	2,536	167,154
	18,076	207,161

11. EMPLOYMENT COSTS

	2019 Kshs	2018 Kshs
Salaries and wages	18,985,000	17,626,919
Pension funds contributions	3,262,690	2,953,858
Medical expenses	3,424,657	4,360,387
Staff training and welfare	1,054,344	842,562
NSSF contributions	40,400	38,400
	26,767,091	25,822,126

XVII NOTES TO THE FINANCIAL STATEMENTS (Continued)

The average number of employees at the end of the year was:		
Permanent employees – Management	4	4
Permanent employees – Non -Managerial	12	12
Temporary and contract employees	1	1
	17	17

	2019 Kshs	2018 Kshs
12. ADMINISTRATION COSTS		
Advertising & Marketing	251,211	500,100
Audit fees	450,000	450,000
Bad debts less recoveries	(51,849)	(602,288)
Bank charges	160,387	134,488
Board Expenses	5,829,534	4,076,870
Donations	-	10,000
Electricity & water	113,531	75,491
Entertainment	943,495	1,044,342
Insurance	535,628	490,160
Legal and professional	601,220	145,500
Other/Miscellaneous Expenses	890,322	554,045
Motor vehicle running	676,575	643,778
Penalties	3,938	-
Printing and stationery	496,849	234,473
Rent	2,803,800	2,452,078
Repairs and maintenance	285,386	270,877
Corporate Social Responsibilities	200,000	-
Subscriptions and renewals	192,519	228,389
Telecommunication	777,154	774,747
Transport, travelling and accommodation	5,836,145	7,656,254
	20,995,845	19,139,303

13. TAXATION

(a) Tax charge		
Current taxation based on the taxable (loss)/profit for the year at 30%	-	-
Deferred taxation (credit)/charge	-	-
	-	-
(b) Reconciliation of tax charge to expected tax based on accounting (loss)/profit		
Accounting (loss)/profit before taxation	(46,987,078)	(42,829,527)

14. DEFERRED TAXATION

At 30 June 2019, there was a potential deferred tax asset which has not been recognised in these financial statements because of the uncertainty regarding the company's ability to generate sufficient future taxable profits against which the accumulated tax losses can be utilised.

XVII NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. VEHICLES AND EQUIPMENT

2019	Motor vehicles,	Computers, Containers, furniture, fittings & equipment	Total
COST	Ksh	Ksh	Ksh
At July 1, 2018	4,397,301	10,509,517	14,906,818
Additions	-	61,495	61,495
Disposals	-	-	-
At June 30, 2019	**4,397,301**	**10,571,012**	**14,968,313**
DEPRECIATION			
At July 1, 2018	4,396,301	10,180,554	14,576,855
Charge for the year	-	98,509	98,509
Eliminated on disposal	-	-	-
At June 30, 2019	**4,396,301**	**10,279,063**	**14,675,364**
NET BOOK VALUE			
At June 30, 2019	**1,000**	**291,949**	**292,949**

XVII NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 VEHICLES AND EQUIPMENT (Continued)

2018	Motor vehicles,	Computers, Containers, furniture, fittings & equipment	Total
COST	Ksh	Ksh	Ksh
At July 1, 2017	4,397,301	10,421,155	14,818,456
Additions	-	88,362	88,362
Disposals	-	-	-
At June 30, 2018	**4,397,301**	**10,509,517**	**14,906,818**
DEPRECIATION			
At July 1, 2017	4,396,301	10,038,616	14,434,917
Charge for the year	-	141,938	141,938
Eliminated on disposal	-	-	-
At June 30, 2018	**4,396,301**	**10,180,554**	**14,576,855**
NET BOOK VALUE			
At June 30, 2018	**1,000**	**328,963**	**329,963**

At June 30, 2019, vehicles and equipment with a cost of Kshs 14,399,684 (2018: Kshs 14,818,456) had been fully depreciated.

XVII NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019 Kshs	2018 Kshs
16. INTANGIBLE ASSETS		
COST		
At 1 July	737,434	485,020
Additions	-	252,414
At 30 June	737,434	737,434
AMORTISATION		
At 1 July	516,572	485,020
Charge for the year	31,551	31,552
At 30 June	548,123	516,572
NET BOOK VALUE		
At 30 June	189,311	220,862

At 30 June 2019, intangible assets with a cost of Sh 485,020 had been fully amortised.

	2019 Kshs	2018 Kshs
17. FINANCE INCOME		
Unrealized foreign exchange gain	118,727	1,189,921
Interest on fixed deposit	-	227,260
	118,727	1,417,181
18. GAIN ON DISPOSAL OF NON-FINANCIAL ASSETS		
Gain on disposal of non-financial assets	200,750	-
19. FINANCE COSTS		
Unrealized foreign exchange loss	(569,955)	(617,742)
20. INVENTORIES		
Stationery and general stores	659,037	624,305
Provision for obsolete stocks	(143,334)	(143,334)
	515,703	480,971
21. (a) TRADE AND OTHER RECEIVABLES		
Trade receivables [note 21 (b)]	38,170,111	38,205,968
Deposits and prepayments	5,508,215	4,062,436
VAT recoverable	10,634,294	9,696,589
Withholding tax	34,089	34,089
Other receivables	17,188,289	17,030,318
Gross trade and other receivables	71,534,998	69,029,400
Provision for bad and doubtful trade receivables	(51,431,999)	(51,427,696)
Net trade and other receivables	20,102,999	17,601,704

XVII NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 (b) TRADE RECEIVABLES

Trade receivables	38,170,111	38,205,968
Accrued Income	-	-
	38,170,111	38,205,968

22. BANK AND CASH BALANCES

	2019 Kshs	2018 Kshs
Kenya Commercial Bank (Kshs A/C)	911,359	12,283,932
Kenya Commercial Bank (Usd A/C)	430,015	976,446
Barclays Bank of Kenya (Khs A/C)	75,866	613,838
Barclays Bank of Kenya (Usd A/C)	1,200,487	701,580
Barclays Bank of London (Usd A/C)	67,351	68,278
Cash in hand	40,000	40,000
	2,725,078	14,684,073

23. SHARE CAPITAL

23 (a) ORDINARY SHARE CAPITAL

Authorised:		
200,000 ordinary shares of Sh.1,000 each	200,000,000	200,000,000
Issued and fully paid:		
93,523 ordinary shares of Sh.1,000 each	93,523,000	93,523,000

On 30 March 2002, the shareholders passed a special resolution to effect the following changes in the company's authorised and issued capital:

- to reduce the par value of the company's ordinary shares from Sh.1,000 to Sh.500 per share without reducing the number of shares issued, thus reducing the total paid up capital to Sh.46,761,500. The credit arising from this reduction was to be applied towards reducing accumulated losses carried in the statement of financial position.
- to increase the reduced authorised share capital of Sh.100,000,000 (made up of 200,000 ordinary shares of Sh.500 each) to Sh.300,000,000 (made up of 600,000 ordinary shares of Sh.500 each).
- to issue an additional 147,363 ordinary shares at a price of Sh.500 per share of which 38,670 shares would be allotted to the principal shareholder, Kenya Ports Authority, while 108,693 shares would be allotted to a new shareholder, Heywood Shipping Company Limited.

The effect of these changes would be to increase the issued share capital from Sh.93,523,000 to Sh.120,443,000. A formal petition was lodged with the High Court of Kenya seeking a confirmation of the reduction in the par value of the company's shares in accordance with the requirements of the Kenyan Companies Act. A preliminary application to the High Court (to dispense with the requirement to serve notice to all the creditors of the company) was made on 10 May **2003. However, the High Court did not grant the orders sought.** The company is now seeking alternative ways of reorganising its share capital.

XVII NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 (b) FUNDS AWAITING ALLOTMENT

The funds received from Kenya Ports Authority amounting to Sh 19,335,000 and from Heywood Shipping Company Limited amounting to Sh 54,346,500 totalling sh 73,681,500, (2018: Sh. 73,681,500), continue to be carried in the statement of financial position as funds awaiting allotment of shares until such time that an alternative way of reorganising share capital is agreed upon between the existing shareholders and Heywood Shipping Company Limited.

23 (c) CAPITAL GRANTS FROM GOVERNMENT

Since July 2013, the Government through KPA has injected capital of Sh. 250,090,000 (2018: Sh. 215,350,000) million which is treated as capital grants. The funds continue to be carried in the statement of financial position as capital grants from Government until such time that an alternative way of reorganising share capital is agreed upon between the existing shareholders and Heywood Shipping Company Limited.

	2019 Kshs	2018 Kshs
24. TRADE AND OTHER PAYABLES		
Trade payables	26,843,589	23,029,397
Accruals and other payables	18,646,635	19,715,573
	45,490,224	42,744,970

Included in the trade payables balance are amounts totalling Sh. 5,496,106 (2018 – Sh 5,429,040) due to container leasing companies, most of whom stopped sending invoices for container lease charges and monthly statements to the company several years back. The liabilities carried in trade payables in respect of amounts due to these suppliers are based on balances outstanding when statements were last received from these suppliers [also see note 26 (iii)]. Based on compromise arrangements that are being negotiated with major container leasing companies, a number of which have been successful, the directors believe that no further liabilities have accrued since the determination of these balances.

25. RELATED PARTY BALANCE AND TRANSACTIONS

(a) Kenya Ports Authority

Kenya Ports Authority (KPA)	26,675,186	26,664,895

Kenya Ports Authority is the majority share holder of Kenya National Shipping Line Ltd, holding 74.87% of the company's equity interest. Kenya Ports Authority has provided full guarantees to all long term lenders of the entity, both domestic and external.

(b) Other related parties include:

(i) The Parent Ministry
(ii) Key Management
(iii) Board of Directors

XVII NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. RELATED PARTY BALANCE AND TRANSACTIONS (Continued)

Transactions with related parties

	2019	2018
	Kshs	Kshs
(a) Grants from National Government	44,590,000	55,350,000
Total	**44,590,000**	**55,350,000**
(b) Key Management Compensation		
Directors' Emoluments (Honorarium & Telephone Allowances)	856,334	960,000
Compensation to CEO	5,749,546	4,843,159
Compensation to Key Management	5,254,147	4,360,416
Total	**11,860,027**	**10,163,575**

26. CONTINGENT LIABILITIES

(i) The company, in the normal course of business, holds containers leased from various companies. Should any container be lost or damaged, the company has the responsibility to compensate the owners. The directors do not anticipate any significant liabilities to accrue from these arrangements, apart from those liabilities already provided for in the financial statements (2018: Nil).

(ii) In 2004, Kenya Revenue Authority (KRA) carried out a withholding tax audit of the company covering the year 2003 and issued a demand of Sh 2,922,898 for unpaid withholding taxes, interest and penalties. The company has raised an objection with regard to this, and the amount has not been provided for as, in the opinion of the directors, the company has good grounds for the objection lodged. An amount of Sh 974,298 already paid in respect of this demand has been reflected as a claim recoverable within trade and other receivables.

(iii) A claim from Textainer Equipment Limited for US$17,571 (Sh. 1,797,483) in respect of unpaid invoices included in their statement when last received, has not been provided for in the financial statements because the directors believe that the claim is not valid (2018: US$ 17,571 – Sh. 1,775,549)

(iv) A claim from P. N. Communications Limited for US$ 17,660 (Sh 1,806,588) in respect of advertisement services rendered has not been provided for, as, in opinion of the directors having regard to legal advice received, the claim is not valid (2018: US$ 17,660- Sh 1,784,543).

(v) There are ongoing legal claims for specific damages which have been brought against the company by former employees. Based upon legal opinions received, the directors do not anticipate that these claims will result in significant losses to the company.

XVII NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. NOTES TO THE STATEMENT OF CASH FLOWS

	2019 Kshs	2018 Kshs
Reconciliation of operating loss to cash used in operations:		
Loss for the year/period	(46,987,078)	(42,829,527)
Adjustments:		
Interest receivable recognized in the loss for the year/period	-	-
Depreciation on motor vehicles and equipment	98,509	141,938
Amortisation of intangible assets	31,551	31,552
Loss/(gain) on disposal of equipment	-	-
Loss for the year/period before working capital changes	(46,857,018)	(42,656,037)
(Increase)/Decrease in trade and other receivables	(2,501,295)	(417,801)
(Increase)/Decrease in inventories	(34,732)	(72,385)
Increase/(Decrease) in trade and other payables	2,745,254	(5,358,084)
Net movement in related company balance	10,291	-
Net cash used in operations	(46,637,500)	(48,504,307)

28. FINANCIAL RISK MANAGEMENT

The company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The company's overall strategy remains unchanged from 2018.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 4 to the financial Statements.

Financial risk management objectives

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

XVII NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 FINANCIAL RISK MANAGEMENT (Continued)

(i) **Credit risk management**

Credit risk refers to the risk that customers will default on their contractual obligations resulting in financial loss to the company.

The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The credit risk on trade receivables is limited because the customers are known customers with high credit ratings.

The credit risk on liquid funds with financial institutions is also low, because the counter parties are banks with high credit-ratings.

The amount that best represents the company's maximum exposure to credit as at 30 June 2019 and 30 June 2018 is made up as follows:

2019

	Fully performing Sh	**Past due Sh**	**Impaired Sh**
Bank Balances	2,725,078	-	-
Trade receivables	603,470	-	37,566,641
	3,328,548	-	37,566,641

2018

	Fully performing Sh	**Past due Sh**	**Impaired Sh**
Bank Balances	14,684,073	-	-
Trade receivables	721,645	-	37,484,323
Due from Directors	-	-	-
	15,405,718	-	37,484,323

Cash and cash equivalents are fully performing.

The customers under the fully performing category are paying their debts as they continue trading .The default rate is low.

The debts that are due are not impaired and continue to be paid. The debts that are impaired have been fully provided for.

XVII NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 FINANCIAL RISK MANAGEMENT (Continued)

(ii) **Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the company's short and medium-term funding and liquidity management requirements. The company manages liquidity risk by maintaining banking facilities through continuous monitoring of forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below analyses the company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month	Between 1-3 months	Over 3 months	Total
As at 30 June 2019	Sh	Sh	Sh	Sh
Trade payables	3,113,363	472,500	23,257,726	26,843,589
Due to related company	-	-	26,675,186	26,675,186
Total	**3,113,363**	**472,500**	**49,932,912**	**53,518,775**

	Less than 1 month	Between 1-3 months	3 months to 1 year	Total
As at 30 June 2018	Sh	Sh	Sh	Sh
Trade payables	192,568	-	22,836,829	23,029,397
Due to related company	-	-	26,664,895	26,664,895
Total	**192,568**	-	**49,501,724**	**49,694,292**

(iii) **Market risk**

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

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

XVII NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

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

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

(a) **Foreign currency risk management**
The company undertakes certain transactions denominated in foreign currencies primarily in US Dollars. The fluctuations in currency exchange rates result in changes in the value of monetary assets and monetary liabilities denominated in foreign currencies hence exposures to the risk of incurring exchange losses. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

The carrying amounts of the Company's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	2019 Kshs	2018 Kshs
Assets		
Trade and other receivables		
US Dollars	2,301,384	3,933,763
Euros	207,794	408,817
Sterling Pounds	29,915	30,407
Swedish Krona (SK)	2,150	9,652
	2,541,243	4,382,639
Bank and cash balances		
US Dollars	1,697,853	1,746,304
Liabilities		
Trade and other payables		
US Dollars	14,765,836	21,207,053
Euros	817,249	1,150,970
Swedish Krona (SK)	20,386	28,435
	15,603,471	22,386,458

10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

At 30 June 2019, if the Kenya Shilling had weakened/strengthened by 10% against the relevant foreign currencies with other variables held constant, the impact on the Company's Statement of Comprehensive Income for the year would have been higher/lower by Sh 1.14M (2018: 1.63M).

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year/period.

XVII NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

(b) **Interest rate risk**

The interest rate risk exposure arises mainly from interest rate movements on the Company's fixed deposits and borrowings. The Company does not have any bank borrowings. It's therefore not subject to interest rate risk.

(c) **Price risk**

The Company does not have financial instruments subject to price risk hence this risk is not relevant.

29 OPERATING LEASE RENTAL COMMITMENTS

	2019 Ksh	2018 Ksh
Payment made under operating leases during the year	2,803,800	2,452,078

30 INCORPORATION

The company is incorporated in Kenya under the Companies Act. The ultimate holding company is Kenya Ports Authority, which is also incorporated in Kenya.

31 EVENTS AFTER THE REPORTING PERIOD

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

32 CURRENCY

These financial statements are presented in Kenya Shillings (Sh).

XVIII. APPENDIX 1: PROJECTS IMPLEMENTED BY THE ENTITY

The Company is undergoing restructuring as a National Carrier. During the year under review, the Company did not implement any projects due to lack of developments funds.

XIX. APPENDIX 2: INTER-ENTITY TRANSFERS

	ENTITY NAME:	KENYA NATIONAL SHIPPING LINE LTD	
	FY 2018/2019		
a.	**Recurrent Grants –** *Transfers from the State Department for Maritime and Shipping Affairs*		
	Bank Statement Date	**Amount (KShs)**	**Financial Year**
	10.09.2018	11,375,000	2018/2019
	13.11.2018	10,465,000	2018/2019
	12.02.2019	11,375,000	2018/2019
	30.04.2019	11,375,000	2018/2019
	Total	**44,590,000**	
b.	**Direct Payments –** *Refund to State Department for Fisheries, Aquaculture & the Blue Economy*		
	07.12.2018	(9,850,000)	2018/2019
	Total	**(9,850,000)**	

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

XX. APPENDIX 3: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA Transferring the funds				**Where Recorded/ recognized**
	Date received as per bank statement	**Nature: Recurrent/Development/Others**	**Total Amount - KES**	**Capital Fund**
Ministry of Transport, Infrastructure, Housing & Urban Development.	10.09.2018, 13.11.2018, 12.02.2019, 30.04.2019	Recurrent	44,590,000	44,590,000
Total			44,590,000	44,590,000