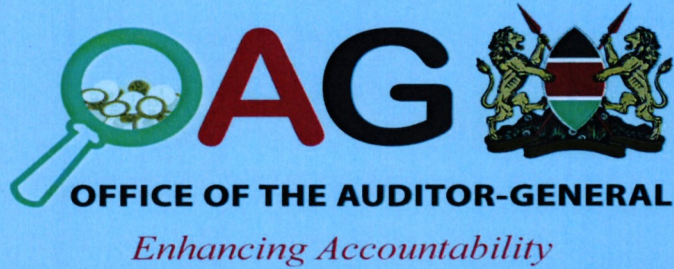


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# REPORT

OF

## THE AUDITOR-GENERAL

ON

### KENYA FERRY SERVICES LIMITED

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

THE NATIONAL ASSEMBLY  
PAPERS LAID

DATE: 03 AUG 2021 TUESDAY

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Finlay Muriuki

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**KENYA FERRY SERVICE  
LIMITED.**

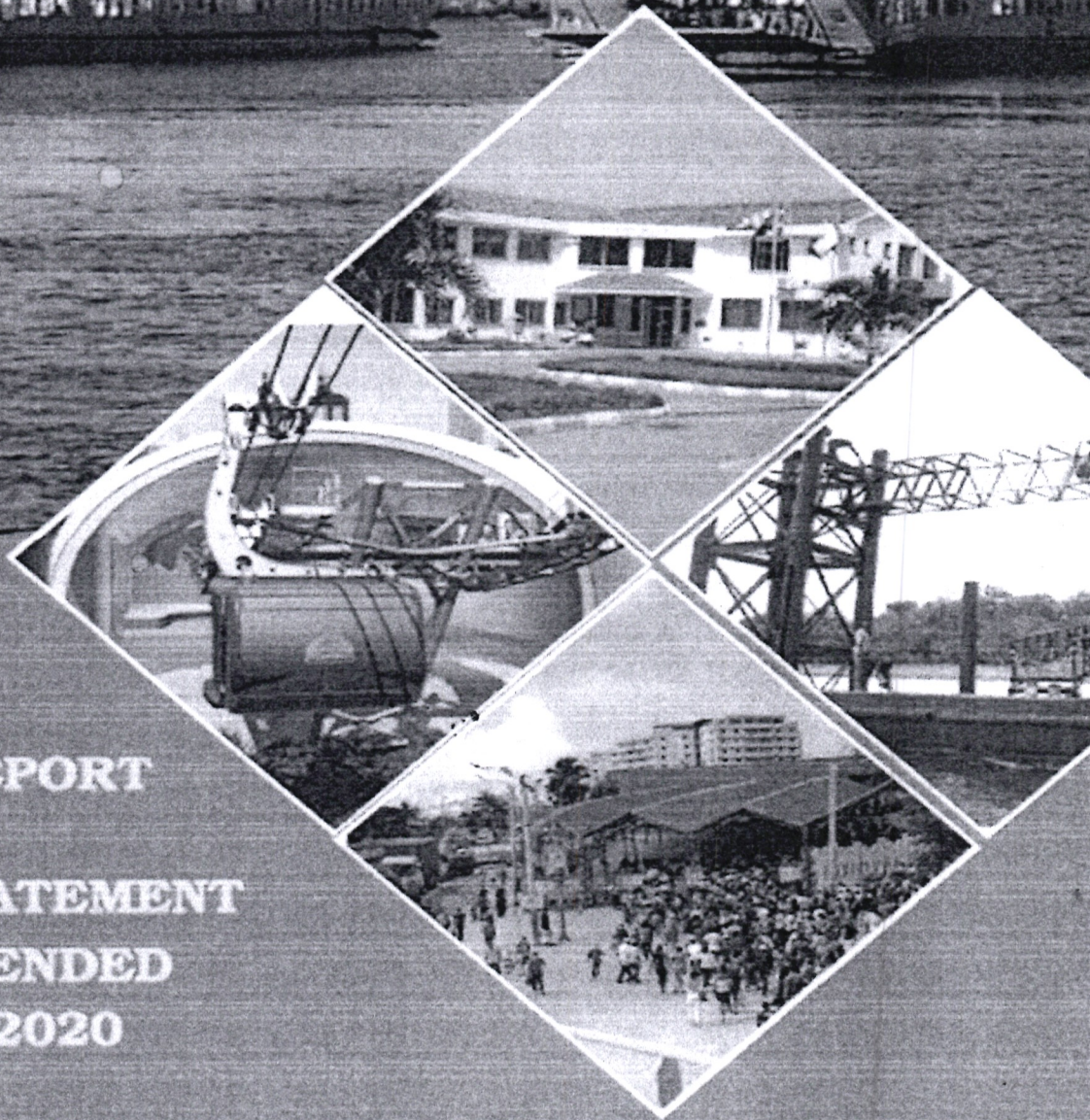
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**ANNUAL REPORT  
&  
FINANCIAL STATEMENT  
FOR YEAR ENDED  
30 JUNE 2020**

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

# KENYA FERRY SERVICES LIMITED

*Annual Report and financial statements for the year ended 30 June 2020*

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## CONTENTS

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Key Company Information	3
The Board of Directors	5
Management Team	8
Chairman's statement	10
Report of the Managing Director	12
Management Discussions	18
Corporate governance statement	20
Report of the Directors	23
Statement of Director's responsibilities	24
Report of the independent auditors	25
Statement of Comprehensive Income	26
Statement of Financial Position	27
Statement of Changes In Equity	28
Statement of Cash Flows	29
Statement of comparison of budget & actual amounts	30
Notes to the Financial Statements	31

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# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## KEY COMPANY INFORMATION

### Background information

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

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

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

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

### Principal Activities

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

### Directors

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

Hon. Danson Mwazo (EGH)	Chairman	Retired on 16/10/2019
Mr. Bakari Hamisi Gowa	Managing Director KFSL	Appointed on 01/07/2016
Dr. Arch. Daniel Manduku (Managing Director KPA)	Director	31/05/2018 - 27/03/2020
Eng. Rashid Salim (Ag Managing Director KPA)	Director	Appointed on 27/03/2020
Ms. Rosina N Mruttu	Director	Retired on 16/10/2019
Ms. Naima A Amir (HSC)	Director	Retired on 16/10/2019
Ms. Omar Daula Mohamed	Director	Retired on 16/10/2019
Mr. Philip Ndolo	Director	Retired on 16/10/2019
Amb. Ukur Yattani	CS National Treasury (Alternate Mr. Daniel Ndolo)	Appointed on 24/07/2019
Ms. Esther Koimett (MBS)	PS State Department of Transport	06/06/2018 – 14/01/2020
Mr. Solomon Kitungu	PS State Department of Transport (Alternate Mr Julius Segera)	Appointed on 14/01/2020

# KENYA FERRY SERVICES LIMITED

*Annual Report and financial statements for the year ended 30 June 2020*

## KEY COMPANY INFORMATION (Continued)

### Corporate Secretary

Mr. Elijah Kitur  
P.O Box 96242- 80110  
Likoni

### Registered office

Peleleza - Likoni  
P. O. Box 96242 - 80110  
Likoni, Mombasa

### Corporate Headquarters

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

### Corporate Contacts

Telephone: (254) 0723664000  
E-mail: [info@kenyaferry.co.ke](mailto:info@kenyaferry.co.ke)  
Website: [www.kenyaferry.co.ke](http://www.kenyaferry.co.ke)

### Corporate Bankers

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

### Independent auditors

Auditor General  
Office of the Auditor General  
Anniversary Tower, University Way  
P. O. Box 30084 – GPO 00100  
Nairobi, Kenya

### Principal Legal Advisors

1. The Attorney General  
State Law Office  
Harambee Avenue  
P.O Box 4112  
City Square 00200  
Nairobi, Kenya
2. Company Secretary, (Elijah Kitur)  
Kenya Ferry Services Ltd  
Peleleza Likoni  
P. O. Box 96242 – 80110 Likoni, Mombasa

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## THE BOARD OF DIRECTORS



### Chairman

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

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



### Managing Director

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



### Hon. ( Amb) Ukur Kanacho Yatani, EGH

Ambassador Yatani has over 27 year experience in Public Administration, Politics, Diplomacy and Governance in public sector since 1992. Between the years 2006-2007 while Member of Parliament for North Horr constituency, he also served as an Assistant Minister for Science and Technology. At the height of his career (March 2013-August 2017), he served as a pioneer Governor of Marsabit County, the largest County in the Republic of Kenya. Between June 2009 and October 2012, he served as Kenya's Ambassador to Austria with Accreditation to Hungary and Slovakia and Permanent Representative to the United Nations in Vienna He has Master of Arts in Public Administration and Public Policy, University of York, United Kingdom, 2005; and Bachelor of Arts in Economics, Egerton University, Kenya, 1991.



### Director

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

# KENYA PORTS SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020



## Director

Mr. Solomon Kitungu is the Principal Secretary for the State Department for Transport in the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works. He joined the State Department for Transport from the National Treasury and Planning Ministry where he was an Investment Director from 2003 – 2009 and from October 2017 to January 2020.

Mr. Kitungu holds a Bachelor of Arts degree in Economics (1987) from the University of Nairobi and a Master of Arts degree in Economics (1990) from the University of Manchester, United Kingdom. Mr. Kitungu has also attended the Advanced Management Programme, a joint programme between Strathmore Business School, Lagos Business School (Nigeria) and University of Navara Barcelona (Spain)



## Director

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



## Director

Eng Rashid Salim is the Ag. Managing Director Kenya Ports Authority. He was appointed as the Ag Managing Director on 27th March 2020 replacing the outgoing MD Dr Arch Daniel Manduku.

Salim joined KPA on September 1, 1982, as a marine engineer trainee and has risen through the ranks and was the head of marine engineering before his appointment as GM engineering Services

He is a Member of The Institute of Marine Engineering, Science and Technology (MIMarEST), he is registered as an Incorporated Marine Engineer (IMarEng) and Incorporated Engineer (IEng) with the Engineering Council, London, United Kingdom



## Director

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

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

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020



**Director**

Ms. Daula Mohamed Omar is a former Managing Director of CIMITI. She holds a Bachelor's degree in Commerce, Diploma in International Air Transport Association (I.A.T.A), Diploma in Management (NEBS UK) among other professional qualifications and is currently pursuing a Master's of Science in Global Management. She has extensive experience in Sales & Marketing field in the private sector key among them new business development, customer relations and service, business prospecting and market analysis. She joined the Board of Directors on 6<sup>th</sup> June 2018.



**Director**

Ms. Naima A. Amir (HSC) is an experienced global relations professional and former Managing Director of Adventure Technology Company. Prior to this appointment, she worked at Postal Corporation of Kenya as Manager External Postal Affairs, International and Public Relations. She holds Bachelor of Arts in Sociology degree and Post Graduate Diploma (PGD) in Mass Communication, and PGD in Personnel Management & Industrial Relations. Ms. Naima A. Amir joined the Board of Directors on 6th June 2018.








**Director**

Mr. Philip Ndolo is an experienced Human Resource professional and holds Bachelor's Degree in Business administration from Washington International University, besides Higher National Diploma in Personnel Management and ILO Training from Cambridge Tutorial College. He is also exposed in cooperative affairs and a graduate of Cooperative College in Kenya. Mr. Ndolo is a member of Institute of Personnel Management Kenya, also served as Chairman of Hotels & Restaurants Authority (Presidential Appointee). He joined the Board of Directors on 8<sup>th</sup> February 2019.

# KENYA FERRY SERVICES LIMITED




Annual Report and financial statements for the year ended 30 June 2020

## MANAGEMENT TEAM

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

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

	<p><b>Head of Engineering</b> Mr. Athmani Washenga holds higher national diploma in Electronics Marine (UK), diploma in Electrical Electronics Marine (UK). He is a specialist in electronics, fitting &amp; turning, specialist in ships equipment all from UK. He is a member of Institute of Engineering Technologists &amp; Technicians Registration Board, Kenya. He has forty two years working experience in marine environment, twelve years at Kenya Navy and thirty years in KFSL. Mr. Washenga retired on 31<sup>st</sup> December 2019</p>
	<p><b>Ag Head of Engineering</b> Mr. Peter Mathenge holds a Bachelor degree in Mechanical Engineering and a Post Graduate Studies in Marine Engineering from the School of Marine Studies Germany. He is currently pursuing an MBA degree - Project Management Option. He has over eighteen years working experience in marine environment, twelve of which were gained at Kenya Navy.</p>
	<p><b>Procurement and Supplies Manager</b> Ms. Jennifer Cirindi holds a Bachelor degree in Education. She is a qualified procurement professional with MCIPS (UK) and holds a post graduate diploma in CIPS. She is a member of KISM and is currently pursuing MBA at Nairobi University in Operations Management. She has over 10 years' experience in supply chain management.</p>

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## CHAIRMAN'S STATEMENT

I am pleased to present the annual report and financial statements for the Company for the year ended 30<sup>th</sup> June 2020. The Company registered a deficit of Kshs 108 Million against a surplus of Kshs 69 Million realized in the previous year 2018/2019. The main contributing factor to this position was a 12% decrease in income from operations from Kshs 565 Million in 2018/2019 to Kshs 497 Million in 2019/2020. This is attributed to low operations as a result of the COVID-19 pandemic. On the other hand, the asset base of the Company improved from Kshs 5.6 billion in the year 2018/2019 financial period to Kshs 6.1 billion in the current year.

The government has a commitment to provide ferry services to pedestrians accessing the Company facilities. This comes in the form of grants and its level (how much is allocated) affects the Company's performance. During the year, the government allocated Kshs 433 million to supplement the recurrent budget whereas the development budget allocation was Kshs 800 million compared to the previous year's Kshs 493 Million and Kshs 350 Million respectively.

### Strategic Issues

#### Acquisition of new ferry vessels

Kenya Ferry Services Ltd (KFSL) received the second ferry vessel christened MV Safari from Turkish Shipyard M/S Ozata Tersanecilik San ve Tic Ltd. This was in fulfillment of the Contract for Design, Construction, Delivery and Commissioning of Two New Passenger/Vehicular ferries. The first vessel, MV Jambo was delivered in 2017 but MV Safari's construction was stopped by the High Court following a dispute with the then appointed marine surveyor M/S Bonriz Surveyors. The case was dispensed with in favour of KFSL as a result construction works on MV Safari resumed and the vessel MV Safari received on 25<sup>th</sup> April 2020.

The two vessels have had a huge impact on the Company's traffic flow management due to their large deck capacity to carry many vehicles and passengers at the same time. The vessel will enhance the service safety, reliability and efficiency at the channel and give room for scheduled maintenance and dry docking for the existing fleet.

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

#### Integrated Security Solution for Likoni

The Company emphasizes the safety and security of the passengers, motorists, their property and Ferry assets. Due to the large numbers of passengers and motorists crossed daily (approx. 350,000), the channel has been identified as a soft spot for crime and terrorism among other threats. As part of implementing the Integrated Security Master plan during the year ended 30<sup>th</sup> June 2020, the Company is in the process of constructing pedestrian waiting sheds on the Island side and is 95% complete.

As part of the implementation of the Integrated Security Masterplan, the Company invested in screening equipment installed at both sides of the channel (Walkthrough metal detectors 20 and luggage scanners 4). The Mtongwe pontoons rehabilitation was completed during the year and

## **KENYA FERRY SERVICES LIMITED**

*Annual Report and financial statements for the year ended 30 June 2020*

certificate of practical completion issued. The construction of Peleleza wall is on-going and is expected to be completed in first quarter of next financial year. The pedestrian walkway on Mainland side was paved using cabro and is in use in addition to 3No. standby generators installed at Peleleza Headquarters, Infrastructure facility and Island Offices.

To further this, the Company intends to adopt a multi-agency approach that shall fast track implementation of the remaining components of the masterplan. This shall include investment in motor vehicle scanners.

### **Likoni Cable Express Project**

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

Company received Cabinet approval for the Likoni Cable Express proposal under PPP arrangement. The Project Agreement was signed in the month of October 2018 and currently the Project Company (Likoni Cable Express) and KFSL are engaged in clearing Conditions Precedent to the Contract. It is envisioned that the ground breaking for the Cable Car Project shall be done by June 2021.

The Company is in the final stage of fulfilling the Conditions Precedent to signing of Contract especially with respect to land on the Mainland side for the return station which happens to be a road reserve that belongs to KeNHA. Currently the Company is awaiting finalization of the deed of assignment of land rights for Mainland side land which is currently at the National Lands Commission after getting a no objection from KenHA.

### **Integrated Marine Transport System (IMTS)**

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

The Company forwarded the concept papers to the National Treasury through the Parent Ministry and approval was granted. Due to passage of time and change of dynamics, the same concept has been revised for resubmission to PPP unit to cover Inland and coastal ferry service. The Board Approval for undertaking of feasibility study has already been granted.

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

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## REPORT OF THE MANAGING DIRECTOR

### Financial Performance for the year

The Company realized a deficit of Kshs 108 Million in the current year compared to a surplus of Kshs 69 Million in the prior year. The Company's capital base improved from equity of Kshs 5.4 Billion in the year 2018/2019 to Kshs 5.8 Billion in the current year. This is attributed to improved deferred income in the form of capital grants received at a total of Kshs 800 Million from the government during the current financial year 2019/2020.

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

### Income from Operations

Year	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
	Shs'000'	Shs'000'	Shs'000'	Shs'000'	Shs'000'
Actual	388,753	417,908	493,972	565,177	497,230
Target	454,877	464,560	492,452	552,417	572,775
Variance	(66,124)	(46,652)	1,520	13,460	(75,545)

The Company failed to achieve its targets on income from operations by Kes 75 Million. This decline in performance on Income from Operations is largely attributed to the advent of COVID-19 pandemic in March 2020. Given the restriction of movements and night curfew imposed by the Government, the Company toll revenue fell by a third during the pandemic period.

### Government Grants

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

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

### GOK Grant - Recurrent

Year	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
	Shs'000'	Shs'000'	Shs'000'	Shs'000'	Shs'000'
GOK Grant - Recurrent	336,032	356,000	506,000	493,000	432,500

# KENYA FERRY SERVICES LIMITED

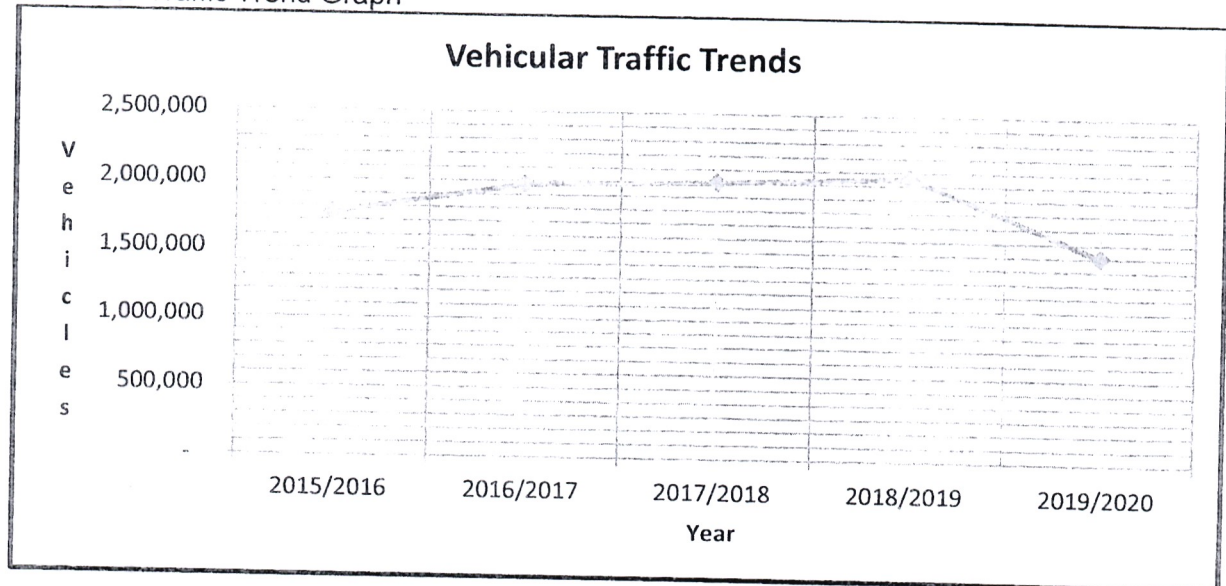
Annual Report and financial statements for the year ended 30 June 2020

## Ferry operations

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

YEAR	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
VEHICLES	1,727,525	1,757,309	1,974,365	1,990,455	1,500,705

Vehicular Traffic Trend Graph



The business volume has been on an upward trend with deep drop in the financial year 2019/2020 due to Covid 19 pandemic and as a result a reduced scale of operation due to restriction of movements and countrywide curfew.

### Information Communication Technology

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

The system went live in July 2018 having covered the following modules; Finance, Procurement and supplies, Human resource (Including Employee self-service portal and recruitment portal), Operations, Security, Safety, Engineering & Maintenance and projects. Customer relation Management (CRM) was configured and tested but experienced operational challenges due to hosting of the CRM system in the same server as ERP. The Company has since acquired the server and associated equipments for activation of the module.

The Company is also in the process of implementing a cashless solution at the channel for revenue collection as an innovation with the aim of minimizing cash handling and sealing any revenue leakages in 2020/2021 financial year. The Company engaged Safaricom Plc to provide Ferry toll Mpesa mobile payment solution in April 2020 as an intervention to the Covid – 19 situation. . On the same vein, the National Bank Ltd has been engaged to offer a comprehensive cashless solution with both the hard and soft infrastructure whereby the toll collection transactions shall be facilitated using

# KENYA FERRY SERVICES LIMITED

*Annual Report and financial statements for the year ended 30 June 2020*

E-wallet, card and mobile payments. The said platform is in the process of being developed and expected to be rolled out in 2020/2021.

## **Customer Service Delivery**

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

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

During the year 2019/2020 under review the following activities were realized;

## **Complaint Handling**

A complaint is usually reported when a customer is dissatisfied with a service or a product that is on offer. Our Company as a service provider is no exception in this scenario owing to the fact that the services offered are monopolistic in nature and absence of competition can easily lead to inefficiency. In order to be alert, Kenya Ferry uses the complaints as a feedback tool. The complaints are also compiled and sent to the Commission on Administrative Justice (CAJ – Ombudsman) as per the performance cycle guidelines. During the year under review, no complaints lodged against the Institution were received from the Commission on Administrative Justice. The Company recorded 26 complaints to which 23 were resolved through liaison with relevant departments, whereas three were pending viz; resumption of the Mtongwe service, motor car breakdowns and poor state of perimeter wall at the mainland side.

## **Media Relations**

Kenya Ferry Services Limited has an active social media platform (twitter - @FerryKenya and a face book page - Ferry Kenya) aimed at creating seamless communication to customers and stakeholders. The Company' social media outlook has increased from 18,700 and 5,000 face book followers to 27,000 and 7,000 respectively.

The Company was mentioned 71 times in the print and electronic media. Out of these, 21 of the mentions were positive and 50 were negative. The negative publicity was influenced by the unfortunate accident which occurred on 26th September, 2019 on board "M.V. Harambee" leading to the loss of life of a mother and her child. While in December 2019, a middle aged man suspected to have committed suicide drove into the Indian Ocean and lost his life.

The Company continues to attract interest especially on the latest development of the envisaged Integrated Coastal Water Transport System, Likoni Cable Express and the new ferry "M.V. Safari" delivered in April, 2020.

## **Corporate Social Responsibility**

### **Free Eye Screening Camp**

The Company in collaboration with Kwale District Eye Centre in Kwale County carried out free eye check-ups at the women waiting bay on the Island side. The partnership began in 2015 and to date a total of 4,170 patients have attended the eye screening camp. The event is held on every last Saturday of each month. From July, 2019 to June, 2020 a total number of 429 ferry users have benefited from the programme. The company used the opportunity as an outreach program in which a customer care desk was pitched to disseminate company information to ferry users and also as a feedback forum.

# KENYA FERRY SERVICES LIMITED

*Annual Report and financial statements for the year ended 30 June 2020*

## **Financial Support/ Donations**

The Company spent Kes 565,000 on donations to facilitate CSR activities aimed at fostering cordial relationship with the local community and other stakeholders.

## **Projects Implementation Progress**

In the year under review, the Company continued the implementation of the Enterprise Resource Planning solution in its entire operations. This project is intended to boost efficiency in ferry operations in line with KFSL ICT strategy 2013-2017. All departmental functions have been automated such as preventive and corrective maintenance, toll revenue billing system, customer relations management, procurement, among others. This project is being undertaken by M/s Coretec Systems Solution and as at 30<sup>th</sup> June 2020, plans were underway to automate the POS for revenue collection and also implement a cashless toll collection system at Likoni Channel.

The Company is also in the process of rehabilitating its fleet of vessels to make them mechanically sound and guarantee availability as per operation schedules. In this regard MV Nyayo, and MV Jambo were dry-docked as scheduled at African Marine & General Engineering Co. Ltd during the financial year. In addition, 2 caterpillar C12 engines were fitted to MV Nyayo at a cost of Kes 20 Million and generator sets at a cost of Kes 21 Million. MV Kwale Prow Modification contract was awarded to M/s Southern Engineering Company Ltd at a cost of Kes 58 Million. During the year under review, the contract for repair of hydraulic power parts worth Kes 69 million for MV Nyayo, MV Harambee and MV Kilindini was also signed and the same is expected to be completed in the next financial year. The prow modification project is critical in order to reduce the gradient of the prow to an angle which would allow easy movement of trailers and buses, reduction of maintenance cost of the jacks and enable the prow to be remote controlled from the bridge.

During the year under review, the Company commenced construction of the passenger waiting sheds in a bid to expand the holding capacity and make them more comfortable hence customer friendly. The project is 95% complete and is envisioned to be completed in the financial year 2020/2021.

The rehabilitation of Mtongwe pontoons and Gangways was completed. The integrity of the infrastructure had dwindled to an extent that the same could no longer support safe operations at the channel hence the repairs. The pontoons have been repaired and strengthened and the gangways refurbished. The Company anticipates commencement of operations at the Mtongwe channel in the next financial year once the rehabilitation of current fleet is concluded. This channel is critical in the decongestion of the overstretched Likoni Channel.

## **COVID-19 Pandemic**

The COVID-19 pandemic affected the world and Kenya was not spared with the first case reported in March 2020. The disease at first affected the cities of Mombasa and Nairobi which were declared hot spots by Ministry of Health. As the pandemic spread to other towns, a nationwide curfew and cessation of movement was declared and a number of guidelines issued to combat the situation. This move greatly affected the way ferry service is offered, with emphasis being social distance and sanitization.

# KENYA FERRY SERVICES LIMITED

## *Annual Report and financial statements for the year ended 30 June 2020*

In compliance with Ministry of Health (MoH) guidelines on COVID-19, the Company installed hand-washing systems for staff and customers on both the Mainland and Island side of the Channel. The guidelines were also customized and implemented at the offices and entire ferry operations. The ferry operation hours changed drastically and motorists were severely affected save for those offering essential services. The social distancing in the ferries was effected with the help of a multi-agency team comprising of Kenya Ferry Services Ltd, Kenya Coast Guard, National Police Service, Mombasa County and other stakeholders. Staff were all issued with basic PPEs, sanitizers etc and were all tested for COVID-19 in conjunction with MoH. The positive cases were isolated and successfully recovered. The resultant change in mode of operations, affected our revenue base whereby revenue dropped by almost one third; hardly enough to defray operational costs. We are optimistic that the pandemic shall be contained.

### **Likoni Floating Bridge**

In a bid to contain the COVID-19 pandemic, the Government of Kenya has initiated a variety of solutions besides the general guidelines issued by Ministry of Health. The Likoni Channel has experienced massive human traffic challenges as a result of ferry vessels carrying only a third of their normal capacities. The large numbers of passengers waiting for their turn to board vessels tends to compromise on basic social distancing concept hence risk of spread of disease. The Government has set up the Likoni Floating Bridge Project across the Kilindini Channel connecting between Ras Bofu (Mainland side) and Liwatoni (Island side) implemented by KeNHA. The project is worth Kshs1.6 billion and expected to be completed within six months. The bridge shall ease pressure off Likoni and Mtongwe Channel to a great extent.

### **RISK MANAGEMENT**

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

#### **1. Strategic Risk**

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

##### **a) Strategic Plan Implementation**

As stated in the Chairman's statement the Company has a strategic plan for the five years 2020 - 2024. The process of strategic plan preparation started in earnest and is due for validation by the Board of Directors before it is finally concluded. Among the forecast risk on this item is delayed disbursement and underfunding. The Company to a large extent depends on the government to fund its development projects. Key to the strategic plan is the acquisition of two new ferries, rehabilitation and expansion of the mooring and landing facilities, extension of the ferry services to the larger Mombasa, Lamu and Kisumu regions. Save for the acquisition and rehabilitation of ferries, the other key areas are yet to be implemented due to financial constraints.

# KENYA FERRY SERVICES LIMITED

*Annual Report and financial statements for the year ended 30 June 2020*

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

## **b) Dongo Kundu Bypass**

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

On this regard the Company is planning to extend the ferry operations to the larger Mombasa, Lake Victoria and Lamu. The strategic plan 2020 – 2024 provides for diversification into property management to supplement the revenue generation. Already proposals are being developed for the island plots and consultations with the parent Ministry and Treasury.

## **2. Operation Risks**

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

# KENYA FERRY SERVICES LIMITED

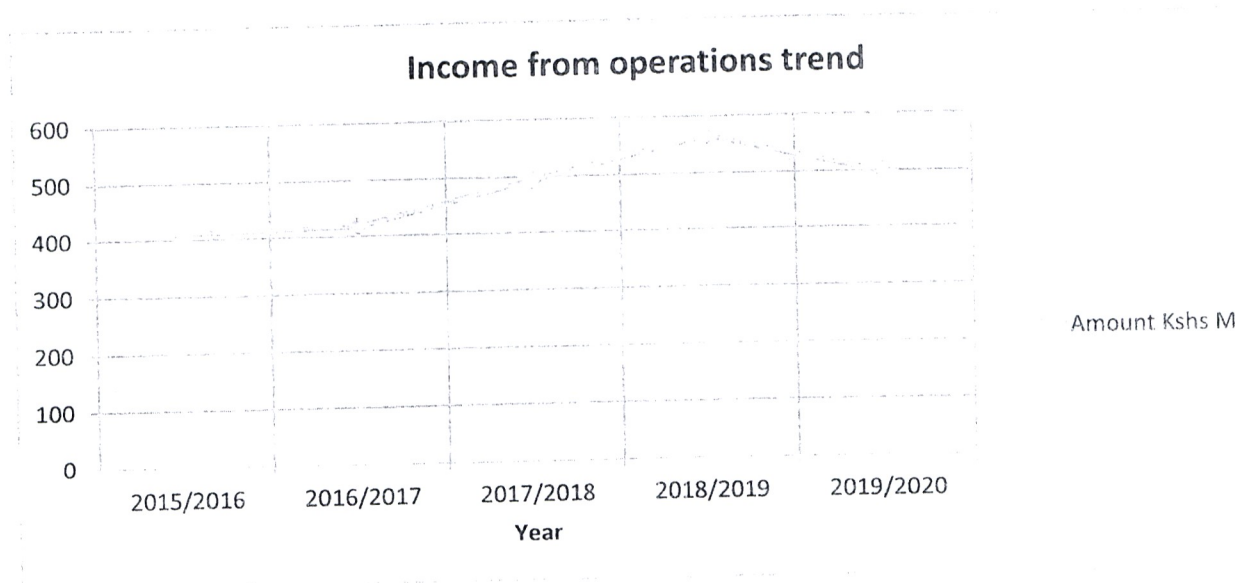
Annual Report and financial statements for the year ended 30 June 2020

## MANAGEMENT DISCUSSIONS & ANALYSIS

### i) Income from Operations

	2015/16	2016/17	2017/18	2018/19	2019/20
<b>INCOME</b>	<b>Kshs000</b>	<b>Kshs000</b>	<b>Kshs000</b>	<b>Kshs000</b>	<b>Kshs000</b>
Income from Operations	410,742	417,908	493,972	565,875	497,230

Income from operations has grown from Kshs411 million in 2015/2016 to Kshs497 million in 2019/2020 representing a 21% increase. On the same vein, there was a drop of 12% in the current financial year attributable to COVID-19 pandemic.



### ii) Operations Expenses

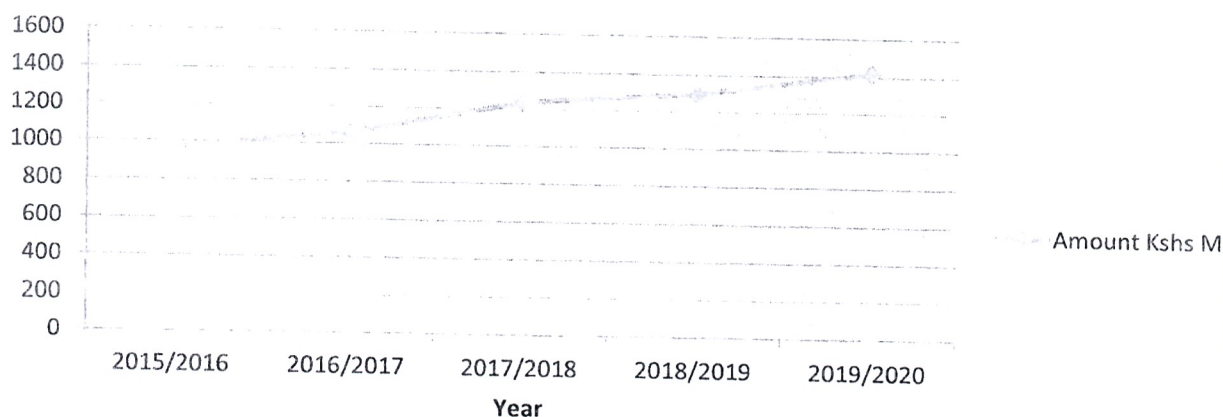
Operating expenses	2015/16	2016/17	2017/18	2018/19	2019/20
	<b>Kshs000</b>	<b>Kshs000</b>	<b>Kshs000</b>	<b>Kshs000</b>	<b>Kshs000</b>
Operating Expenses	969,023	1,060,767	1,237,327	1,295,563	1,414,611

Operating expenses has increased from Kshs969 million in 2015/2016 to Kshs 1,414 million in 2019/2020 representing a 46% increase. Compared to last financial year, the increase is 9% attributable to inflationary factors and this is viewed as reasonable by management.

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## Operating Expenses Trend



### iii) Surplus/Deficit

	2015/16	2016/17	2017/18	2018/19	2019/20
	Kshs000	Kshs000	Kshs000	Kshs000	Kshs000
Surplus/(Deficit)	(102,071)	(83,451)	43,229	68,962	(108,290)

The Company recorded operating a deficit of Kshs 102 million in 2015/2016 and managed to turn around and made a surplus of Kshs 43 million and Kshs 69 in 2017/2018 and 2018/2019 respectively before recording a deficit of Kshs 108 million attributable to COVID-19.

### iv) Equity

	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
Kshs	"000"	"000"	"000"	"000"	"000"
Equity	3,787,321	5,013,993	5,329,570	5,395,891	5,874,154

The Company's equity has risen from Kshs3.79 billion in 2015/2016 to Kshs 5.87 billion in 2019/2020 translating to 55% growth. This is attributable to deferred income in form of Government Grants received for the purchase of the two new ferries.

# KENYA FERRY SERVICES LIMITED

*Annual Report and financial statements for the year ended 30 June 2020*

## **CORPORATE GOVERNANCE STATEMENT**

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

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

### **Corporate Governance Guidelines**

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

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

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

### **Composition of the Board of Directors**

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

# KENYA FERRY SERVICES LIMITED

*Annual Report and financial statements for the year ended 30 June 2020*

## **Role and Responsibilities of the Board**

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

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

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

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

## **Managing Director & Chief Executive Officer**

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

## **Directors' Training And Development**

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

During the year, the Chairman and entire Board of Directors was de-gazetted in the month of October 2019 following an accident at the Likoni Channel in which a vehicle plunged in to the sea and the driver and passenger drowned as highlighted in the Chairman's remarks. The Company therefore did not have full board of Directors for three quarters of the financial year ended 30<sup>th</sup> June 2020.

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## Board Work Plan and Meetings

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

Board Members	Main Board	Finance and Establishment	Technical Committee	Audit & Risk	Special Board
Hon. Dan. Mwazo, EGH (Chairman)	1	0	0	0	1
Mrs. Rosina Mruttu - Member	1	1	1	0	1
Mr. Philip Ndolo - Member	1	1	0	1	1
Ms Daula Omar - Member	1	1	1	0	1
Ms Naima Amir - Member	1	1	0	1	1
Eng. A. Masha, Alt. Director, MD KPA	1	1	1	1	1
Mr. D. Ndolo, Alt. Director, National Treasury	1	1	0	1	1
Mr. Bakari Gowa, MD KFS	1	1	1	0	1

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## REPORT OF THE DIRECTORS

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

### Principal Activities

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

### Results

The results of the Company for the year ended June 30, 2020 are set out on page 27 to this document.

### Dividends

The Company is a non-commercial state corporation

### Directors

The members of the Board of Directors who served during the year are as shown on page 3. In accordance with the State corporations Act and Regulations of the Company's articles of Association, two of the Directors retired during the period.

### Auditors

The Auditor General is responsible for the statutory audit of the Company in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board,



**Elijah Kitur**  
**Corporate Secretary**

**Mombasa**

Date 28.09.20

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## STATEMENT OF DIRECTORS RESPONSIBILITIES

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


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


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

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

### Approval of the Financial Statements

The *Company's* financial statements were approved by the Board on 28.09.20 and signed on its behalf by:

  
Salim Chingabwi  
Chairman

  
Bakari Hamisi Gowa  
Managing Director

# REPUBLIC OF KENYA

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NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON KENYA FERRY SERVICES LIMITED FOR THE YEAR ENDED 30 JUNE, 2020**

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of Kenya Ferry Services Limited set out on pages 26 to 56, which comprise the statement of financial position as at 30 June, 2020, 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 Ferry Services Limited as at 30 June, 2020, 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 Kenya Ferry Services Limited Act, 2006 and the Public Finance Management Act, 2012.

#### **Basis for Qualified Opinion**

##### **1. Property, Plant and Equipment - Fully Depreciated Assets**

The statement of financial position as at 30 June, 2020 reflects a balance of Kshs.4,311,179,000 in respect of property, plant and equipment which, as disclosed in Note 11 to the financial statements, includes fully depreciated assets with a total cost of Kshs.473,885,000. As previously reported, although some of the assets are in use, the economic value of these assets has not been accounted for in the financial statements. This is contrary to International Accounting Standard No.16 which states that, the revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the balance sheet date. Further, the assets were last valued more than twenty-four (24) years ago in October, 1996.

Under the circumstances, it was not possible to confirm that the property, plant and equipment of Kshs.4,311,179,000 as at 30 June, 2020 is fairly stated.

## **2. Trade and Other Receivables**

### **2.1. Long Outstanding Debts**

The statement of financial position as at 30 June, 2020 reflects trade and other receivables balance of Kshs.403,110,000. As previously reported, the balance includes trade debtors of Kshs.12,300,496, Kshs.50,652,633 and Kshs.27,500,000, respectively all totalling to Kshs.90,453,129 which have been outstanding since the year 2008/2009. Although Management has indicated that the debts are subject to court cases, no documentary evidence was provided to support the assertion. Further, the original debtors' statements were not availed for audit confirmation.

In the circumstances, the accuracy and completeness of trade receivables balance of Kshs.403,110,000 as at 30 June, 2020 could not be confirmed.

### **2.2. Staff Receivables**

As disclosed in Note 17 to the financial statements, the trade and other receivables balance of Kshs.403,110,000 includes an amount of Kshs.3,779,000 in respect of staff receivables. Included in the latter balance is an amount of Kshs.3,220,000 which has been outstanding for more than five (5) years. No evidence of debt recovery was availed for audit review and Management has not provided explanations on how the former staff were cleared before settling their debts.

Consequently, it has not been possible to confirm the accuracy, completeness, and recoverability of trade and other receivables balance of Kshs.403,110,000 as at 30 June, 2020.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Ferry Services Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Key Audit Matters**

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

### **Other Matter**

### **Budgetary Control and Performance**

The statement of comparison of budget and actual amounts for the year ended 30 June, 2020 reflects revenue budget of Kshs.1,334,600,000 and actual receipts of Kshs.1,306,321,000, resulting in an under-collection of Kshs.28,279,000. Similarly, the

statement reflects an expenditure budget of Kshs.1,333,870,000 against actual expenditure of Kshs.1,414,611,000, resulting in an over-expenditure of Kshs.80,741,000. The over-expenditure mainly occurred under administrative expenses and staff costs.

### **Other Information**

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

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

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

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

### **Basis for Conclusion**

#### **1. Failure to Present Other Mandatory Information**

The financial statements for the year ended 30 June, 2020 submitted for audit do not have accompanying other mandatory information such as Statement of Performance Against Pre-Determined Objectives and Corporate Social Responsibility Statement/Sustainability Reporting. This is contrary to the requirements of the reporting prescribed and published by the Public Sector Accounting Standards Board pursuant to the provisions of Section 194 (1) of the Public Finance Management Act, 2012.

#### **2. Idle Assets**

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

the weigh bridges are used to control the number of motor vehicles that board the ferries.

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

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 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 internal controls, risk management and overall governance were not effective.

### Basis for Conclusion

#### 1. Delayed Banking

The statement of comprehensive income for the year ended 30 June, 2020 reflects total revenue of Kshs.1,306,321,000, out of which Kshs.497,230,000 is in respect of income from operations. Records provided for audit review indicated that during the year under review, the Kenya Ferry Services Limited contracted a firm to provide toll collection and cash-in-transit services for toll collections and to bank the same into the Company's collection account daily.

However, a review of sampled cash receipts and bank deposit slips for the months of July, August, September, 2019 and May and June, 2020 revealed delayed banking of Kshs.92,407,660 by between 2-7 days. This is contrary to Section 5.5.1 of the Kenya Ferry Finance Manual which requires the finance manager will ensure prompt banking of all cash or cheque received within 24 hours of receipt. Further, clause 4 of the contract agreement between the Kenya Ferry Services and the collection firm requires delivery to the bank to be done in the morning following the collection of the revenue. Delayed banking may result in misappropriation of funds.

#### 2. Income from Operations – Weigh Bridges

Included in the income from operations of Kshs.497,230,000, as disclosed in Note 2 to the financial statements, is an amount of Kshs.478,169,000 relating to toll collections

charged to motorists who are ferried across the Likoni channel. An inspection revealed that, although the weigh bridges were integrated with the revenue system on both sides of the channel, they were not in use as the Kenya Ferry Services Limited does not use weight to charge for use of ferry by motor vehicles.

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

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

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit;
- (ii) In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books;
- (iii) The Company's statement of financial position and statement of comprehensive income are in agreement with books of account; and
- (iv) In my opinion the information given in the report of the Directors is consistent with the financial statements.

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

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

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

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

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

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

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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


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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of Kenya Ferry Services Limited to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

I also provide the Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all

relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

  
Nancy Gathungu  
**AUDITOR-GENERAL**

**Nairobi**

**19 July, 2021**

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 Shs'000'	Restated 2019 Shs'000'	2019 Shs'000'
Income from operations	2	497,230	565,875	565,875
Government compensation	3	432,500	493,000	493,000
Other incomes	4	6,209	19,176	19,176
Transfer from deferred income	5	370,382	286,474	286,474
<b>TOTAL REVENUE</b>		<b>1,306,321</b>	<b>1,364,525</b>	<b>1,364,525</b>
Operating costs	6	328,220	338,760	270,418
Administrative expenses	7	1,086,391	956,803	145,491
Staff costs		-	-	500,179
Board expenses		-	-	13,763
Repairs and maintenance		-	-	74,587
Depreciation expense		-	-	290,791
Amortisation expense		-	-	333
<b>TOTAL EXPENSES</b>		<b>1,414,611</b>	<b>1,295,563</b>	<b>1,295,563</b>
<b>OPERATING DEFICIT</b>	8	<b>(108,290)</b>	<b>68,962</b>	<b>68,962</b>


# KENYA FERRY SERVICES LIMITED


Annual Report and financial statements for the year ended 30 June 2020

## STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2020

	Notes	2020 Shs'000'	Restated 2019 Shs'000'	2019 Shs'000'
<b>Non-current assets</b>				
Property, plant and equipment	11	4,311,179	3,201,828	3,201,828
Capital work in progress	12	336,527	1,339,851	1,339,851
Investment property	13	306,888	314,757	314,757
Prepaid operating lease rentals	14	1,728	2,058	2,058
		<u>4,956,321</u>	<u>4,858,494</u>	<u>4,858,494</u>
<b>Current assets</b>				
Inventories	16	107,754	82,884	82,884
Trade and other receivables	17	403,110	480,995	480,995
Cash and cash equivalents	18	621,554	201,515	201,515
		<u>1,132,419</u>	<u>765,394</u>	<u>765,394</u>
		<b><u>6,088,741</u></b>	<b><u>5,623,889</u></b>	<b><u>5,623,889</u></b>
<b>EQUITY AND LIABILITIES</b>				
<b>Shareholders Funds</b>				
Share capital		499,904	499,904	499,904
Revaluation reserve		542,280	542,280	542,280
Retained earnings		(677,101)	(568,811)	(568,811)
Deferred income		5,395,280	4,965,661	4,965,661
		<u>5,760,363</u>	<u>5,439,034</u>	<u>5,439,034</u>
<b>Current liabilities</b>				
Trade and other payables	19	328,376	184,855	184,855
		<u>6,088,741</u>	<u>5,623,889</u>	<u>5,623,889</u>

The financial statements on pages 26 - 53 were approved and authorised for issue by the Board of Directors on 28.09.2020 and were signed on its behalf by;

  
Salim Chingabwi  
Chairman

  
Bakari Hamisi Gowa  
Managing Director

# NEHYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2020

	Notes	Ordinary Share Capital Shs'000'	Revaluation reserve Shs'000'	Retained earnings Shs'000'	Deferred income Shs'000'	Total Shs'000'
<b>Year ended 30 June 2020</b>						
At start of year		499,904	542,280	(568,811)	4,965,661	5,439,034
Additional deferred income		-	-	-	800,000	800,000
Transfers to income statement		-	-	-	(370,382)	(370,382)
Deficit for the year		-	-	(108,290)	-	(108,290)
<b>At end of year</b>		<b>499,904</b>	<b>542,280</b>	<b>(677,101)</b>	<b>5,395,279</b>	<b>5,760,362</b>
<b>Year ended 30 June 2019</b>						
At start of year		499,904	542,280	(637,773)	4,902,135	5,306,546
Additional deferred income		-	-	-	350,000	350,000
Transfers to income statement		-	-	-	(286,474)	(286,474)
Surplus for the year		-	-	68,962	-	68,962
<b>At end of year</b>		<b>499,904</b>	<b>542,280</b>	<b>(568,811)</b>	<b>4,965,661</b>	<b>5,439,034</b>

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2020

	Notes	2020 Shs'000	Restated 2019 Shs'000'	2019 Shs'000
<b>Operating activities</b>				
Cash generated used in operations	20	<u>126,857</u>	<u>(31,886)</u>	<u>(31,886)</u>
Net cash used in operating activities		<u>126,857</u>	<u>(31,886)</u>	<u>(31,886)</u>
<b>Investing activities</b>				
Cash paid for purchase of property, plant and equipment	11	<u>(128,106)</u>	<u>(99,897)</u>	<u>(99,897)</u>
Cash incurred on capital works on progress		<u>(378,714)</u>	<u>(342,653)</u>	<u>(342,653)</u>
Net cash used in investing activities		<u>(506,820)</u>	<u>(442,550)</u>	<u>(442,550)</u>
<b>Financing activities</b>				
Proceeds from:				
- Development grants (Gok)		<u>800,000</u>	<u>350,000</u>	<u>350,000</u>
Net cash from financing activities		<u>800,000</u>	<u>350,000</u>	<u>350,000</u>
Increase /(Decrease) in cash and cash equivalents		<u>420,037</u>	<u>(124,437)</u>	<u>(124,437)</u>
<b>Movement in cash and cash equivalents</b>				
At start of year		201,516	325,953	325,953
Increase /(Decrease) in cash and cash equivalents		<u>420,037</u>	<u>(124,437)</u>	<u>(124,437)</u>
At end of year	18	<u>621,554</u>	<u>201,516</u>	<u>201,516</u>

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Budget Shs"000"	Adjustments Shs"000"	Final Budget Shs"000"	Actual Shs"000"	Performance %
<b>Revenues</b>					
Income from operations	515,364	-	515,364	497,230	-4%
Government compensation	432,500	-	432,500	432,500	0%
Other incomes	6,100	-	6,100	6,209	2%
Transfer from deferred income	380,636	-	380,636	370,382	-3%
<b>Total revenue</b>	<b>1,334,600</b>	-	<b>1,334,600</b>	<b>1,306,321</b>	
<b>Recurrent expenditures</b>					
Staff costs	513,894	-	513,894	537,533	-5%
Administrative expenses	480,352	-	480,352	539,321	-12%
Board expenses	10,122	-	10,122	9,537	6%
Operating costs	329,502	-	329,502	328,220	0%
<b>Total recurrent expenditure</b>	<b>1,333,870</b>	-	<b>1,333,870</b>	<b>1,414,611</b>	
<b>OPERATING SURPLUS</b>	<b>730</b>	-	<b>730</b>	<b>(108,290)</b>	

### Budget Notes;

The 12% adverse performance in administrative expenses is largely attributable to depreciation of property, plant and equipment has largely went up due to capitalization of the new ferry Mv Safari.

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## NOTES

### 1. SIGNIFICANT ACCOUNTING POLICIES

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

#### a) **Statement Of Compliance And Basis Of Preparation**

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

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

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

#### b) **Revenue Recognition.**

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

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

- i) **Revenue from the sale of goods and services** is recognized in the year in which the Company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Finance Income** comprises interest receivable from the bank deposits and investments in securities, and is recognized in the profit and loss on a time proportion basis using the effectiveness interest rate method.
- iii) **Dividend income** is recognized in the income statement in the year in which the right to receive the payment is established.

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## NOTES (CONTINUED)

### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

#### b) Revenue Recognition (continued)

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

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

#### c) Government Grants.

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

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

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

#### d) Property, Plant and Equipment

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

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

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## NOTES (CONTINUED)

### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

#### e) Depreciation and Impairment of Property, Plant and Equipment

Freehold land is not depreciated.

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

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

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

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

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

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

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## NOTES (CONTINUED)

### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### f) Investment Property

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

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

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

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

#### g) Intangible Assets

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

#### h) Inventories

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

#### i) Finance and Operating Leases

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

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

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## NOTES (CONTINUED)

### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### j) Retirement Benefit Obligation

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

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

#### k) Cash and Cash Equivalents.

Cash and cash equivalents comprise cash in hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held in a commercial bank in Kenya at the end of the financial year.

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

#### l) Exchange rates differences.

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

#### m) Financial Assets.

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

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

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

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## NOTES (CONTINUED)

### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### n) **Financial Liabilities.**

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

#### o) **Comparative Figures.**

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

#### p) **Financial Risk Management.**

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

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

#### i) **Credit Risk**

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

#### ii) **Liquidity Risk.**

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

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

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## NOTES (CONTINUED)

		01-06-20	01-05-20	01-04-20	Before
Details	Balance	..30-06-20	..31-05-20	..30-04-20	01-04-20
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Total Payables as at 30th June 2020	264,700	173,339	18,123	11,715	61,523

### iii) Market Risk

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

### iii) Market Risk (continued)

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

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

### q) Effective IFRS Disclosures.

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

### r) Deferred Income.

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

### s) Subsequent Events.

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2020.

The Company is yet to receive the Audit Certificate issued by the Office of the Auditor General for the financial year 2018/2019 and has cleared with Parliamentary Investment Committee (PIC) upto and including the financial year 2017/2018

### Progress on follow up of auditor recommendations

Please refer to Annex 1

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## NOTES (CONTINUED)

	2020 Shs'000'	Restated 2019 Shs'000'	2019 Shs'000'
<b>2. Income from Operations</b>			
Toll collection	478,169	549,473	549,473
Ferry priority passes	<u>19,061</u>	<u>16,403</u>	<u>16,403</u>
	<b><u>497,230</u></b>	<b><u>565,875</u></b>	<b><u>565,875</u></b>

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

The Company's income from toll collections for the year was Kshs 497 million which represents an decrease of 12% compared to the year 2018/2019 earnings of Kshs 566 million. The Company failed to meet its yearly target on toll revenue by 15% i.e. Kshs 497 Million against a target of Kshs 573 Million. This is majorly attributable to the fact the COVID-19 pandemic led to significant reduction of daily toll revenue by one third as a result of reduced activities during the pandemic.

However, collections from ferry pass also increased by 19% from Kshs16 million in 2018/2019 to Kshs 19 million in 2019/2020. The Company is optimistic that this trend shall be reversed in the next financial year once the pandemic is contained world-wide.

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

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## NOTES (CONTINUED)

3. Government Compensation	2020 Shs'000'	Restated 2019 Shs'000'	2019 Shs'000'
Recurrent grants received	<u>432,500</u>	<u>493,000</u>	<u>493,000</u>

During the year that ended the Company received a total of Kshs 433 million; compared to Kshs 493 million earned in the previous year to supplement operations of the Company. The existing financing arrangement with respect to compensation for free passage of passengers is not sustainable in that whereas the Company's revenue generation has steadily increased over the years, the government subventions are not only inadequate, but erratic and unpredictable.

4. Other Income	2020 Shs'000'	Restated 2019 Shs'000'	2019 Shs'000'
Infrastructure rent income	3,741	8,939	8,939
Commercial adverts	1,946	8,986	8,986
Used oil, drums, and commission	406	535	535
Hire of ferries	116	715	715
	<u>6,209</u>	<u>19,176</u>	<u>19,176</u>

This category of income encompasses all non-ferry related sources. It includes rental income from mainland ferry terminus and facilities, commercial advertising, hire of ferries and disposal of Company assets. The Company registered decrease from Kshs 19 million in 2018/2019 to Kshs 6 million in 2019/2020. This is attributed to the court order impeding the running of infrastructure facility and Covid 19 pandemic that adversely affected the advertising industry.

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## NOTES (CONTINUED)

5. Deferred Income	2020	Restated	2019
	Shs'000'	2019	Shs'000'
Ferrycraft	189,788	128,760	128,760
Infrastructure Building	7,869	7,869	7,869
Office Building	1,235	1,235	1,235
Car Shade	9	9	9
Dry Docking	113,274	103,937	103,937
Ferry Generators	869	869	869
Ferry Engines	2,333	1,094	1,094
Safety Equipment	9,816	9,816	9,816
Mainland Ramp	1,558	1,558	1,558
Mtongwe Pontoon	6,370	6,370	6,370
Peleleza Jetty	6,058	6,058	6,058
Security Project	21,326	10,509	10,509
Schottel Steering System Nyayo	1,171	1,171	1,171
Furniture & Equipment	186	186	186
Computers	3,964	3,964	3,964
Island ramp	1,793	1,793	1,793
Island wall	1,012	1,012	1,012
Generator/Weilder	263	263	263
Driveway Mainland	1,488	-	-
Transfer for the year	<b>370,382</b>	<b>286,474</b>	<b>286,474</b>

Deferred income was earned from the use of the following assets whose costs were financed by funds received from the Government in the form of grants. The benefit is apportioned from various assets in the financial year. Deferred Income has increased by 29% to Kshs 370 million from Kshs 286 million. This is largely attributed to capitalization of Mv Safari and CCTV surveillance equipment in the financial year 2019/2020.

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## NOTES (CONTINUED)

6. Operating Costs	2020 Shs'000'	Restated 2019 Shs'000'	2019 Shs'000'
Fuel Oil & Lubricants	107,155	128,686	128,686
Ferry Insurance	78,894	68,074	68,074
Security Services	72,156	73,351	73,351
Workshop Tools & Spares - Ferries	70,015	68,650	-
Planning & Research	-	-	307
	<u>328,220</u>	<u>338,760</u>	<u>270,418</u>

Operating costs are all forms of costs associated with the core business of the Company which ensures provision of ferry services. Total cost incurred during the year was Kshs 260 million down from Kshs 270 million in the previous year 2018/2019. This is attributed to a scale down in operations due to a nationwide curfew and cessation of movement was declared. Further, a drop in pump prices from an average of Kshs102 per litre around the month of November 2019 to Kshs 71/45 in June 2020 and that Mv Safari was supplied with own fuel and operated until the end of the financial year with that stock. In addition, the Company temporarily closed the Mtongwe channel for rehabilitation in October 2019.

### 7. Administrative Expenses

These are costs relating to the general administration of the business other than the Operating /direct expenses. These are made up of staff costs, board costs, repair and maintenance. It is the requirement of IFRS 1 that expenses recognized in the statement of comprehensive income are analysed either by nature or by function and that their application has to be consistently and comparatively applied.

a Staff Costs	2020 Shs'000'	Restated 2019 Shs'000'	2019 Shs'000'
Salaries and allowances	459,984	439,011	439,011
NSSF	816	689	689
Pension contribution	22,642	21,962	21,962
Gratuity	1,004	733	733
Leave Expense	25,633	-	-
Staff Welfare	27,454	37,784	37,784
	<u>537,533</u>	<u>500,179</u>	<u>500,179</u>

Staff cost include all forms of remunerations paid to employees for services rendered to the Company. Total staff costs incurred during the year was Kshs 538 Million against a budgetary provision of Kshs 514 Million. The cost is attributed to 10No leavers and recruitment of 12No joiners into the Company and staff leave expense provision provided in the financial year 2020.

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## NOTES (CONTINUED)

Staff welfare includes staff medical cover, service pay and token of appreciation that may be paid. As at 30th June 2020, the Company had a staff compliment of 286 employees against a staff establishment of 340 employees.

Staff cost include all forms of remunerations paid to employees such as salaries and allowances, NSSF contributions, pension contributions, gratuity and staff welfare. During the period the Company acquired one new state of the art vessel, MV. Safari, that has a larger vehicular and passenger capacity. With its delivery and commissioning in May 2020 additional workforce was deployed to this vessel. The ferry requires at least a total of twelve (12) crew members to handle it effectively. The Company requested the National Treasury through the Ministry of Transport, Infrastructure, Housing and Urban Development to consider and grant approval for recruitment of additional staff for the operations and also to provide additional funds for this exercise.

During the intervening period, the Company had to utilize the services of available personnel who covered the extra duties through payment of overtime and extraneous allowances. Normally, overtime payment is expensive considering the fact that the hours payable are double the normal working hours.

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

	2020	2019
	No.	No.
The average number of employees at the end of the year was:		
Permanent - Management	121	120
Permanent - Unionisable	164	163
Temporary & contract employee	1	1
	<u>286</u>	<u>284</u>

	2020 Shs'000'	Restated 2019 Shs'000'	2019 Shs'000'
<b>b. Board Costs</b>			
Board expense	<u>9,537</u>	<u>13,763</u>	<u>13,763</u>

These are expenses incurred to cater for all forms of board activities ranging from sitting allowances, duty travel and accommodation. In the financial year 2019/2020, this expenditure decreased by 31% from Kshs 14 Million to Kshs 10 Million. This is attributed to the fact that the Board of Directors was degazetted in October 2019 hence minimal board activities.

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## NOTES (CONTINUED)

	2020 Shs'000'	Restated 2019 Shs'000'	2019 Shs'000'
<b>c. Repairs and maintenance</b>			
Workshop Tools & Spares - Ferries	-	-	68,650
Motor Vehicle Maintenance	667	1,943	1,943
Furniture and Equipment	6,936	3,995	3,995
<b>Total</b>	<b>7,603</b>	<b>5,937</b>	<b>74,587</b>

This is a class of costs that takes care of repairs and maintenance of all Company assets including ferry crafts, motor vehicles, furniture and equipment. The costs have since been restated to Operation and Administration costs as per IFRS 1 requirement.

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## NOTES (CONTINUED)

	2020 Shs'000'	Restated 2019 Shs'000'	2019 Shs'000'
<b>d Other Administrative Expenses</b>			
Water & Electricity	11,024	13,681	13,681
Telecommunication	5,573	5,479	5,479
Travel - Domestic & Foreign	18,634	11,660	11,660
Printing & Advertising	5,886	9,173	9,173
Subscription - Newspapers & Periodicals	289	320	320
Trade Shows & Exhibitions	3,357	2,467	2,467
Sports & Recreation	6,307	7,451	7,451
Rent & Rates	436	855	855
Training	7,072	6,473	6,473
IT Implementation & Training	2,819	4,732	4,732
Gifts Food and Drinks	3,676	4,102	4,102
Staff Uniforms	2,136	7,149	7,149
General Office Supplies	9,138	9,167	9,167
Sanitary & Cleaning	2,552	1,736	1,736
General Insurances	9,626	3,476	3,476
Legal	3,755	14,829	14,829
Contracted Professional Services	2,730	7,969	7,969
HIV & Gender Mainstreaming	252	105	105
Fuel - Motor Vehicles & Generators	493	160	160
Transport - Funeral	1,323	1,928	1,928
Fumigation	645	421	421
Bank Charges	261	290	290
Corporate Social Responsibility	1,839	1,330	1,330
Provision for obsolete stock	-	4,024	4,024
Provision for Bad & Doubtful Debts	-	26,515	26,515
Planning & Research	1,518	307	-
Disaster Management	8,598	-	-
Disease Surveillance	12,781	-	-
Depreciation PPE	400,795	282,922	-
Investment Property	7,869	7,869	-
Amortisation - Prepaid Operating Lease	330	333	-
Motor Vehicle Maintenance	667	1,943	-
Furniture and Equipment	6,936	3,995	-
	<b>539,321</b>	<b>442,860</b>	<b>145,491</b>

Other administration costs are all forms of expenses which the Company incurs in order to run its business other than operating cost. During the year the Company spent a total of Kshs 539 Million on other administration costs representing a 22% increase in the current year compared to prior year 2018/2019. This is attributable to a provision of Kshs 31 Million for obsolete stock and doubtful debts provided in the last financial year 2018/2019. The Company also spent Kshs 21 million in combating Covid -19 pandemic as well as managing a disaster in which a motor car plunged into the sea killing the two occupants on board. Further, depreciation of property, plant and equipment has largely went up due to capitalization of the new ferry Mv Safari.

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## NOTES (CONTINUED)

8 Operating deficit	2020 Shs'000'	Restated 2019 Shs'000'	2019 Shs'000'
The following items have been charged in arriving at operating surplus:			
Depreciation on property, plant and equipment (Note 11)	401,104	282,922	282,922
Depreciation on investment property (Note 13)	7,869	7,869	7,869
Amortisation of prepaid operating lease rentals (Note 14)	330	333	333
Auditors' remuneration (note 7d)	1,500	1,500	1,500
Board expenditures (note 7b)	9,537	13,763	13,763
Staff costs (Note 7a)	<u>537,533</u>	<u>500,179</u>	<u>500,179</u>
9 Depreciation expense	2020 Shs'000'	Restated 2019 Shs'000'	2019 Shs'000'
Depreciation on property, plant and equipment (Note 11)	401,104	282,922	282,922
Depreciation on investment property (Note 13)	<u>7,869</u>	<u>7,869</u>	<u>7,869</u>
	<u>408,973</u>	<u>290,791</u>	<u>290,791</u>
10 Amortisation	2020 Shs'000'	Restated 2019 Shs'000'	2019 Shs'000'
Prepaid operating lease rentals ( Note 14)	<u>330</u>	<u>333</u>	<u>333</u>

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## NOTES (CONTINUED)

### 11 Property, plant and equipment

Year ended 30 June 2020

	Ferry Vessels Shs'000'	Freehold land Shs'000'	Freehold Buildings Shs'000'	Computer & Led screen Shs'000'	Motor vehicles Shs'000'	Furniture & equipments Shs'000'	Driveway, watchtower, Sheds, roads Boat & Garden Shs'000'	Total Shs'000'
<b>Cost or valuation</b>								
At start of year	3,353,546	16,537	906,884	122,863	14,143	467,384	73,762	4,955,119
Additions	18,103	-	-	5,557	-	04,446	-	128,106
Transfer	1,367,155	-	-	-	-	-	14,884	1,382,038
<b>At end of year</b>	<b>4,738,804</b>	<b>16,537</b>	<b>906,884</b>	<b>128,419</b>	<b>14,143</b>	<b>571,830</b>	<b>88,645</b>	<b>6,465,263</b>
<b>Depreciation</b>								
At start of year	1,065,632	-	93,891	118,047	14,143	394,915	66,352	1,752,980
Charge for the year	334,916	-	18,138	4,248	-	40,825	2,978	401,104
<b>At end of year</b>	<b>1,400,548</b>	<b>-</b>	<b>112,029</b>	<b>122,295</b>	<b>14,143</b>	<b>435,739</b>	<b>69,330</b>	<b>2,154,084</b>
<b>Net book value</b>	<b>3,338,256</b>	<b>16,537</b>	<b>794,856</b>	<b>6,124</b>	<b>-</b>	<b>136,090</b>	<b>19,316</b>	<b>4,311,179</b>

Included in property plant and equipment are the following which have been fully depreciated. The assets were valued and isolated for disposal

	Cost Shs'000	Notional Depreciation Shs'000
Guard rails	7,265	1,000
Computers & ledscreen Office	101,451	30,435
Motor vehicles	136,493	17,062
Generators, plant, tools, Cranes, CCTV & equipment	14,143	3,536
	214,533	26,817
	473,885	78,850

# KEENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## NOTES (CONTINUED)

### Property, plant and equipment (continued)

Year ended 30 June 2019

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

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

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## NOTES (CONTINUED)

### 12 Capital Work In Progress

	2020 Shs'000'	2019 Shs'000'
At start of year	1,339,851	1,050,730
Additions	378,714	342,653
Transfers (note 11)	<u>(1,382,038)</u>	<u>(53,533)</u>
At end of year	<u><u>336,527</u></u>	<u><u>1,339,851</u></u>

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

### 13 Investment Property

	2020 Shs'000'	2019 Shs'000'
<b>Cost</b>		
At start of year	<u>393,446</u>	<u>393,446</u>
<b>Depreciation</b>		
At start of year	78,689	70,820
Charge for the year	<u>7,869</u>	<u>7,869</u>
At end of year	<u>86,558</u>	<u>78,689</u>
<b>Net book value</b>	<u><u>306,888</u></u>	<u><u>314,757</u></u>

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

### 14 Prepaid Operating Lease Rentals

	Land Shs'000'	Building Shs'000'	2020 Shs'000'	2019 Shs'000'
<b>Cost</b>				
At start and end of year	<u>2,000</u>	<u>8,000</u>	<u>10,000</u>	<u>10,000</u>
<b>Amortisation</b>				
At start of year	1,870	5,739	7,942	7,609
Charge for the year	<u>64</u>	<u>266</u>	<u>330</u>	<u>333</u>
At end of year	<u>1,933</u>	<u>6,006</u>	<u>8,272</u>	<u>7,942</u>
<b>Net book value</b>	<u><u>67</u></u>	<u><u>1,994</u></u>	<u><u>1,728</u></u>	<u><u>2,058</u></u>

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

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## NOTES (CONTINUED)

### 15 Intangible Assets

	2020 Shs'000'	2019 Shs'000'
<b>Cost</b>		
At start and end of year	18,138	18,138
<b>Amortisation</b>		
At start and end of year	18,138	18,138
<b>Net book value</b>	-	-

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

### 16 Inventories

	2020 Shs'000'	2019 Shs'000'
Lubricants stocks	861	709
Stationery stocks	1,703	1,330
Spares parts	99,212	75,804
Hardware & Electricals	3,552	2,093
Paints	2,427	2,107
Consumables	-	841
	<b>107,754</b>	<b>82,884</b>
<b>Spare parts</b>		
Gross spare parts	155,276	131,867
Less: impairment provisions	(56,064)	(56,064)
	<b>99,212</b>	<b>75,804</b>

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

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

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

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## NOTES (CONTINUED)

17 Trade and Other Receivables	2020 Shs'000'	2019 Shs'000'
Trade receivables	102,310	194,030
Less: Provision for bad debts	<u>(67,418)</u>	<u>(67,418)</u>
Net trade receivables	34,892	126,613
Deposits and prepayments	104,665	341,600
VAT recoverable	259,774	5,965
Net staff receivables	<u>3,779</u>	<u>6,817</u>
	<b><u>403,110</u></b>	<b><u>480,995</u></b>
<b>Staff Receivables</b>		
Gross staff receivables	6,999	10,037
Less: Provision for impairment	<u>(3,220)</u>	<u>(3,220)</u>
Net staff receivables	<u>3,779</u>	<u>6,817</u>
<b>Movement in trade receivable impairment provisions</b>		
	2020 Shs'000'	2019 Shs'000'
At start and end of year	67,418	40,903
Addition	<u>-</u>	<u>26,515</u>
At end of year	<b><u>67,418</u></b>	<b><u>67,418</u></b>

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

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

Prepayments reflected above constitute marine insurance, general insurance, group life insurance and medical insurance. All insurance services are prepaid; the relevant cost is subsequently apportioned over the period of the cover.

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## NOTES (CONTINUED)

The ageing analysis of gross trade receivables is as follows:

	2020 Shs	2019 Shs
0 to 30 days	1,569	14,948
31 to 60 days	494	760
61 to 90 days	94	81,507
Over 90 days	100,153	96,815
	<u>102,310</u>	<u>194,030</u>

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

### 18 Cash and Cash Equivalents

	2020 Shs'000'	2019 Shs'000'
Cash at bank	621,454	201,415
Cash in hand	100	100
	<u>621,554</u>	<u>201,515</u>

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

Account Name.	Account number	Branch	2020 Shs'000'	2019 Shs'000'
Expenditure	01003057007200	Port house	4,640	4,315
Special	01003057007201	Port house	399	10
Development	01003057007202	Port house	614,180	161,438
Collection	01003057007203	Port house	2,235	35,653
			<u>621,454</u>	<u>201,415</u>

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

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## NOTES (CONTINUED)

19 Trade and Other Payables	2020 Shs'000'	2019 Shs'000'
<b>Current</b>		
Trade payables	264,700	146,660
Other payables	<u>63,677</u>	<u>38,193</u>
<b>Total Trade and Other Payables</b>	<b><u>328,376</u></b>	<b><u>184,853</u></b>

These refer to all categories of suppliers of goods and services to the Company, including staff, whose payments were outstanding at the close of the financial year 2019/2020. The same shall be paid in the new financial year 2020/2021 as a first charge.

The increase in Trade Payables is attributed to development projects amounting to Kshs 161 million relate to ferry dry docking activities, project retentions, pedestrian waiting shades and Peleleza security wall construction.

20 Cash used in operations	2020 Shs'000'	2019 Shs'000'
Reconciliation of deficit to cash used in operations:		
Operating surplus	(108,290)	68,962
<b>Adjustments for:</b>		
Depreciation on property, plant and equipment (Note 11)	400,795	282,922
Depreciation on investment property (Note 13)	7,869	7,869
Amortisation of prepaid operating lease rentals (Note 14)	330	333
Transfer from deferred income	(370,382)	(286,474)
Changes in working capital:		
- Inventory	(24,871)	8,965
- trade receivables	77,885	(70,412)
- Trade and other payables	<u>143,522</u>	<u>(44,052)</u>
Cash generated from/used in operations	<b><u>126,857</u></b>	<b><u>(31,886)</u></b>

Reconciliation of operating deficit to cash used in operations

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## NOTES (CONTINUED)

21	Contingent Liabilities	No	Rate Kshs '000'	2019/2020	2018/2019
				Kshs '000'	Kshs'000'
	Estimated gross claims: fatal	218	750	163,500	163,500
	Fatal cases settlement	214	750	(160,500)	(160,500)
	<b>Sub - Total</b>			<b>3,000</b>	<b>3,000</b>
	Estimated gross claims: non-fatal	6	750	4,500	4,500
	Non - Fatal cases settlement			-	-
	<b>Sub - Total</b>			<b>4,500</b>	<b>4,500</b>
	<b>Total Claims paid - fatals &amp; non fatals</b>			<b>7,500</b>	<b>7,500</b>

In the year 1994 a ferry accident occurred at Mtongwe channel which caused loss of life and property both to the Company and to its customers as a result of which litigation proceedings were brought against the Company. A total of 257 fatal and 103 injury cases were registered. However, through a legal process only 219 fatal and 6 injury cases were admitted and later 1 fatal claim was dismissed. So far, 214 of the fatal cases have been settled leaving a balance of 4 fatal and 6 non – fatal cases outstanding translating to a contingent liability balance of Kshs 7.5 million.

### b) Collective Bargaining Agreement Award (2015 – 2019)

	2019/2020	2018/2019
	Kshs '000'	Kshs '000'
Gross Estimate	107,913	107,913

The Company negotiated the CBA for the period 01<sup>st</sup> July 2015 to June 2019 and a ruling was delivered against the Company by the Employment and Labour Relations court in Mombasa. The total cost of implementing the award is estimated to be Kes 108 Million and the same has been recognized as a contingent liability. The matter has since been appealed at the Court of Appeal.

# KENYA FERRY SERVICES LIMITED

Annual Report and financial statements for the year ended 30 June 2020

## APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe
1.0					
		<b>Property Plant &amp; Equipment</b>			
1.1	Fully depreciated assets Kshs473,885,000	The Company commenced review of asset register in 2018/2019 financial year whereby State Department of Public Works was invited to value assets which were obsolete/no longer in use and ear-marked the same for disposal. The disposal process started in the FY2019/2020 and was completed in FY 2020/2021.  Asset tagging has also been initiated in the financial year 2019/2020. The same shall be written off the books once disposed off	Rajab Kombo : Finance Manager	Unresolved	December 2020
1.2	Idle Assets-weighbridges	Weighbridges have not been operationalized due to logistical challenges i.e. space constrained in operational area and an executive order on the same	Peter Mathenge – Ag Head of Engineering Rajab Kombo : Finance Manager	Unresolved	30 June 2021

1.3	Construction and delivery of two new ferries	<ul style="list-style-type: none"> <li>• Evaluation process reviewed and cleared by PPRA</li> <li>• Due diligence on performance bond was conducted by our bankers National Bank of Kenya Ltd</li> <li>• Requisite taxes amounting to Kshs171M was paid to KRA</li> <li>• Delivery period delayed due to litigation process</li> </ul>	Peter Mathenge – Ag Head of Engineering	Resolved
2.0	<b>Trade and Other Receivables</b>			
2.1	Long outstanding debts Kshs62,953, 129	<p>Lustman &amp; Co. (1990) Ltd case: The case has been fixed for hearing but adjourned a number of times.</p> <p>M/s Nova Media case: The arbitrator rendered an award in which the Company's claim was dismissed with costs of the arbitration in 2018. The Company has filed a notice of appeal before the High Court.</p> <ul style="list-style-type: none"> <li>• No staff has been cleared from the organization if he/she owes the Company</li> <li>• The Company is pursuing ex-staff debtors through a court process; those deceased their debts shall be written off</li> </ul>	Elijah Kitur: Company Secretary & Head of Legal Services Rajab Kombo : Finance Manager	Unresolved  30 June 2021
2.2	Staff receivables		Thomas Kenga: Human Resource & Administration Manager	Resolved

**KENYA FERRY SERVICES LIMITED**

Annual Report and financial statements for the year ended 30 June 2020

<p><b>3.0</b></p>	<p><b>Trade and Other Payables</b></p> <p>Long outstanding payables Kshs84,438,282 and taxes Kshs162,497,579 for MV Jambo</p>	<ul style="list-style-type: none"> <li>The outstanding creditors have been paid in the financial year 2018/2019 as a first charge.</li> <li>Requisite taxes amounting to Kshs171M was paid to KRA in respect of MV Jambo</li> </ul>	<p>Rajab Kombo : Finance Manager</p>	<p>Resolved</p>	
<p><b>4.0</b></p>	<p><b>Income from operations</b></p> <p>Weighbridges not used as a basis to charge motorists</p>	<p>Basis for charging is length as contained in Legal Notice No. 4 Kenya Gazette Supplement No.3 2018</p>	<p>Peter Mathenge – Ag Head of Engineering</p>	<p>Resolved</p>	<p>1 month</p>



Managing Director  
Date.....



Chairman of the Board  
Date.....