REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

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REPORT

OF

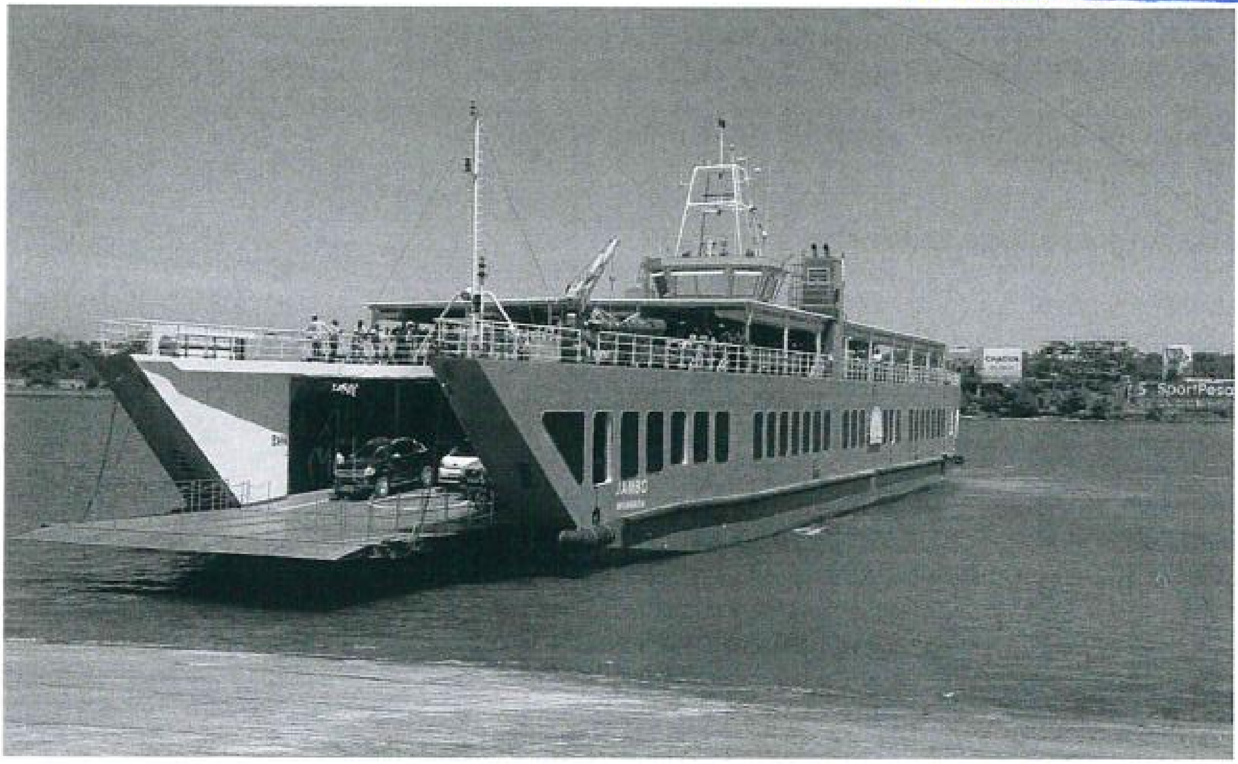
THE AUDITOR-GENERAL

ON

KENYA FERRY SERVICES LIMITED

FOR THE YEAR ENDED 30 JUNE, 2021

KENYA FERRY SERVICES LTD



Annual Report & Financial Statements for year ended 30 June 2021

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

CONTENTS

KEY ENTITY INFORMATION AND MANAGEMENT

Background information

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

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

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

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

Principal Activities

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

Directors

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

Mr. Salim Juma Chingabwi	Chairman	Appointed on 07/8/2020
Mr. Bakari Hamisi Gowa	Managing Director KFSL	Appointed on 01/7/2016
Eng. Rashid Salim	Director (Managing Director KPA)	Appointed on 07/8/2020
Ms. Sheila Nanjekho Makali	Director	Appointed on 07/8/2020
Mr. Mohamed Amin Sheikh	Director	Appointed on 07/8/2020
Mr. Genesio Njagi Mugo	Director	Appointed on 07/8/2020
Dr. Nuh Nassir Abdi	Director	Appointed on 07/8/2020
Mr. Philip Ndolo	Director	Appointed on 07/8/2020
Hon. (Amb) Ukur Kanacho Yatan	CS National Treasury (Alternate Mr. Daniel Ndolo)	Appointed on 24/7/2019
Mr. Solomon Kitungu	PS Ministry for Transport & Infrastructure (Alternate Mr. Julius Segera)	Appointed on 07/8/2020

The Company merged with KPA through the signing of a Transfer Agreement on the 16th June 2021.

KEY COMPANY INFORMATION (Continued)

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

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

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

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

Corporate bankers
National Bank (K) Ltd
Nkrumah 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

THE BOARD OF DIRECTORS

Chairman

Mr. Salim Juma Chingabwi holds a Master of Science in Human Resource Management degree, Bachelor's degree in Education and a Diploma in Maritime Studies. He has over thirty five years experience in maritime/transport sector offering advice to top management in areas of strategy formulation and Human Resource Management.

Mr. Chingabwi retired from Kenya Ports Authority in 2015 whereby he was the General Manager - Human Resource & Administration. He is a member of Federation of Kenyan Employers Coast Branch, Chartered Institute of Personnel Management (UK) and Institute of Human Resources Management (Kenya)

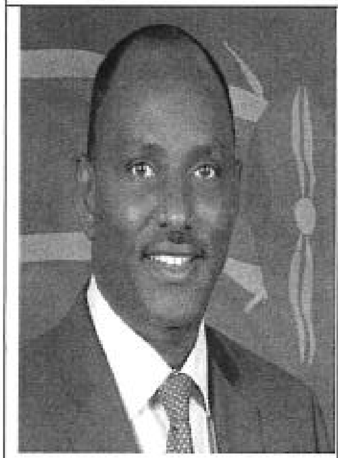
Managing Director

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

Director

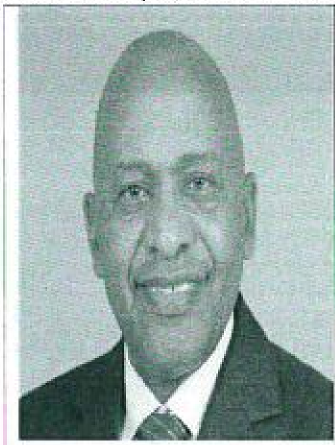
Eng. Rashid Salim is the Ag. Managing Director Kenya Ports Authority having been appointed on 27th March 2020. He joined KPA in 1982 as a marine engineer trainee and risen through the ranks and was General Manager Marine Engineering before his appointment as Ag. Managing Director.

He is a member of the Institute of Marine Engineering, Science and Technology (MIMarEST), registered as an Incorporated Marine Engineer (IEng) with the Engineering Council London, UK.



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
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
Mr. Genesio Njagi Mugo holds a Master of Business Administration and a Bachelor of Science degree in Tourism. He has extensive experience in the Public Service having served in various Boards such as Kenya Private Sector Alliance, Kenya Association of Manufacturers Energy & Petroleum Sector, Shippers Council of East Africa among others.

Mr. Mugo has vast experience in mobilization activities whereby he has served in various organizations including the National Alliance Party as National Oversight Board Member.

Director
Dr Nuh Nassir Abdi holds a Bachelor of Veterinary Science degree. He served in the Kenya National Assembly as Member of Parliament Bura Constituency 2008-2013.He was also a member of the Chairperson County Assemblies Forum of 47 County Assemblies.

Mr. Abdi has also served as an Independent Consultant on Governance & Public Finance at DAI/DPP and AHADI. He also served in various capacities as a vet at Care International among others.

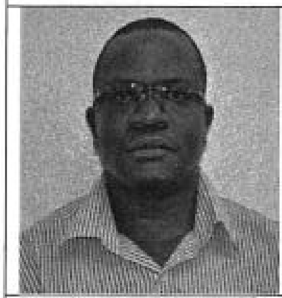
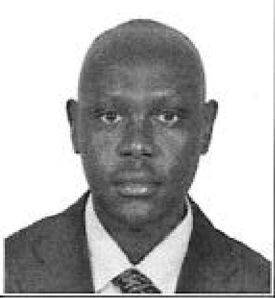
Director
Ms. Sheila Nanjekho Makali holds a Master of Business Administration and a Bachelor of Education degree in addition to Chartered Institute of Supplies Management qualifications. She has extensive experience in academia and currently a lecturer at Masinde Muliro University of Science & Technology.

Ms. Makali has also served as in supplies field at a local Public University.

Director
Mr. Mohamed Ali Sheikh Amin holds a Higher Diploma in Shipping. He served extensively in the marine and shipping sector in various capacities with local and international shipping companies. He also served as an Auditor in the defunct East African Community based at the Kenya Ports Authority.

Mr. Amin has in the past been a member of Institute of Chartered Shipbrokers with vast commercial management of ships and cargo handling experience.

MANAGEMENT TEAM

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

Procurement and Supplies Manager
Ms. Jennifer Cirindi holds a Bachelor degree in Education. She is a holder of MBA in Operations Management from the University of Nairobi and a member of KISM. She is a qualified procurement professional with MCIPS (UK) and holds a post graduate diploma in CIPS. She has over 18 years' experience in supply chain management.

CHAIRMAN'S STATEMENT

I am pleased to present the annual report and financial statements for the Company for the year ended 30th June 2021. The Company registered a deficit of Kshs 232 Million against a deficit of Kshs 108 Million realized in the previous year 2019/2020. The main contributing factor to this position was a 1% decrease in income from operations from Kshs 497Million in 2019/2020 to Kshs 491Million in 2020/2021 against an increase in administrative and operating expenses by 8%. This is attributed to low operations as a result of the COVID-19 pandemic.

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 of allocation affects the Company's performance. During the year, the Government allocated Kshs 415Million to supplement the recurrent budget whereas the development budget allocation was Kshs 300Million compared to the previous year's Kshs 433Million and Kshs 800Million respectively.

Following an Executive Order, a transfer agreement was signed on 16th June 2021 transferring all staff, operations, assets and liabilities of KFSL including the operation of Likoni Floating Bridge to Kenya Ports Authority.

Strategic issues

Acquisition of new ferry vessels

As previously reported, Kenya Ferry Services Ltd (KFSL) contracted a Turkish Shipyard M/S Ozata Tersanecilik San ve Tic Ltd for Design, Construction, Delivery and Commissioning of Two New Passenger/Vehicular ferries. This contract was fully executed and realized. The last vessel delivered i.e. MV Safari is still under defect liability period. 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 vessels have enhanced the service safety, reliability and efficiency at the channel and facilitated 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 30th June 2021, the Company completed the construction of pedestrian waiting sheds on the island side and Peleleza security wall at the Company Headquarters.

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. The Company thereafter received Cabinet approval for the Likoni Cable Express proposal under PPP arrangement.

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 turnaround 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. Subsequent to the reporting date, the land was allocated through a gazette notice Vol.CXXIII – No. 226 dated 5th November 2021. The Project has a capacity to transit 180,000 people per day and thus will help in decongesting the channel, enhance security and provide income to the Company.

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 referred 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 Ltd (KFSL) Merger with Kenya Ports Authority

Following an Executive Order, a transfer agreement was signed on 16th June 2021 transferring all staff, operations, assets and liabilities of the defunct KFSL including the operation of Likoni Floating Bridge to Kenya Ports Authority. A roadmap towards ensuring smooth transition has been developed with clear timelines and responsible officers has been prepared and is being implemented. This process is envisaged to be completed in the next financial year.

Salim Chingabwi
Chairman

Financial Performance for the year

The Company realized a deficit of Kshs 232 Million in the current year compared to a deficit of Kshs 108 Million in the prior year. This is attributed to income reduction in revenue and escalation of operating and administrative costs.

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	**2016/2017**	**2017/2018**	**2018/2019**	**2019/2020**	**2020/2021**
	Shs'000'	**Shs'000'**	**Shs'000'**	**Shs'000'**	**Shs'000'**
Actual	417,908	493,972	565,177	497,230	491,001
Target	464,560	492,452	552,417	572,775	608,199
Variance	**(46,652)**	**1,520**	**12,760**	**(75,545)**	**(117,198)**

The Company failed to achieve its targets on income from operations by Kshs 117 Million. This decline in performance on Income from Operations is largely attributed to the advent of COVID-19 pandemic. Given the restriction of movements, reduced scale of operations and night curfew imposed by the Government, the Company toll revenue realization was low.

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.

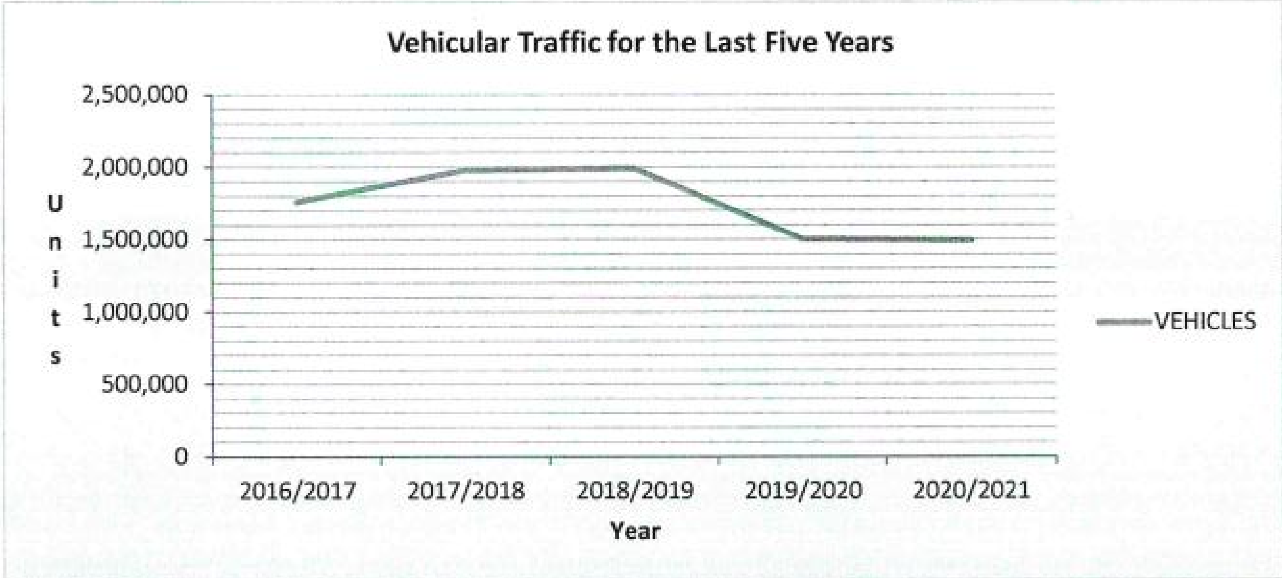
GOK Grant - Recurrent					
Year	**2016/2017**	**2017/2018**	**2018/2019**	**2019/2020**	**2020/2021**
	Shs'000'	**Shs'000'**	**Shs'000'**	**Shs'000'**	**Shs'000'**
GOK Grant - Recurrent	356,000	506,000	493,000	432,500	415,000

Ferry operations

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

YEAR	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021
VEHICLES	1,757,309	1,974,365	1,990,455	1,500,705	1,493,550

Vehicular Traffic Trend Graph



The business volume has been on an upward trend with a drop in the financial years 2019/2020 and 2020/2021 due to Covid 19 pandemic and as a result a reduced scale of operation due to restriction of movements and countrywide curfew. This trend is expected to reverse once the restrictions are relaxed

Information Communication Technology

The Company has successfully implemented 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 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 enhance revenue controls in 2020/2021 and 2021/2022 financial years. The Company engaged Safaricom Plc to provide Ferry toll Mpesa mobile payment solution in April 2020 as an intervention for 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 E-wallet, card and mobile payments. The said platform has been developed; and accompanying infrastructure works substantially completed and the system expected to be rolled out in 2021/2022.

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 2020/2021 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 24 complaints to which all have been resolved through liaison with relevant departments.

Media Relations

The Company over the years has embraced the use of its two social media platforms : facebook and tweeter to create a voice for the company and improve the overall brand image. Customers see these platforms as service channel to communicate and share their feedbacks .

The Face book page has a favourable following of **31,713 up** from 29,000 users in last year(increase of **2,713**) while twitter account has grown to **9012** up from 7,500 followers (**1512**). The Company appreciates the online users as real time engagement platform.

The Company continues to attract interests especially on the latest development of the envisaged Integrated Coastal Water Transport System, Likoni Cable Express and the impact of the new bigger capacity ferries acquired.

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 numbers of the patients having benefitted from the programme since inception didn't change as the programme was suspended during the year under review as a result of Covid 19 situation.

Environment Conservation

The Company particpated in tree planting exercise on 30th october 2020 at jomvu kuu mangroove planting exercise in jomvu Constituency - Mombasa County where 1000 seedling were planted in conjuction with the local Community. The company donated seeedlings worth KSh. 50,000 to the community and out of this programme the company created a positive brand image.

30/10/20 Paricipants at the Mangrove tree planting exercise at Alidina Jomvu site

Covid 19 Protocols

During the year, the Company used the LED screen to publicise the Ministry of Health covid protocols and also engaged in a multi agency approach for crowd management in an effort to ensure safe ferry crossing by the users.

In addition, the Company undertook the "Jerusalem Challenge" to give our services visibility and create awareness of the safety and security measures in place on board our ferries while assuring our customers of our commitment to excellent services at all times. This also went to uplifting people' hopes against the Covid 19 pandemic, lock downs and deaths.

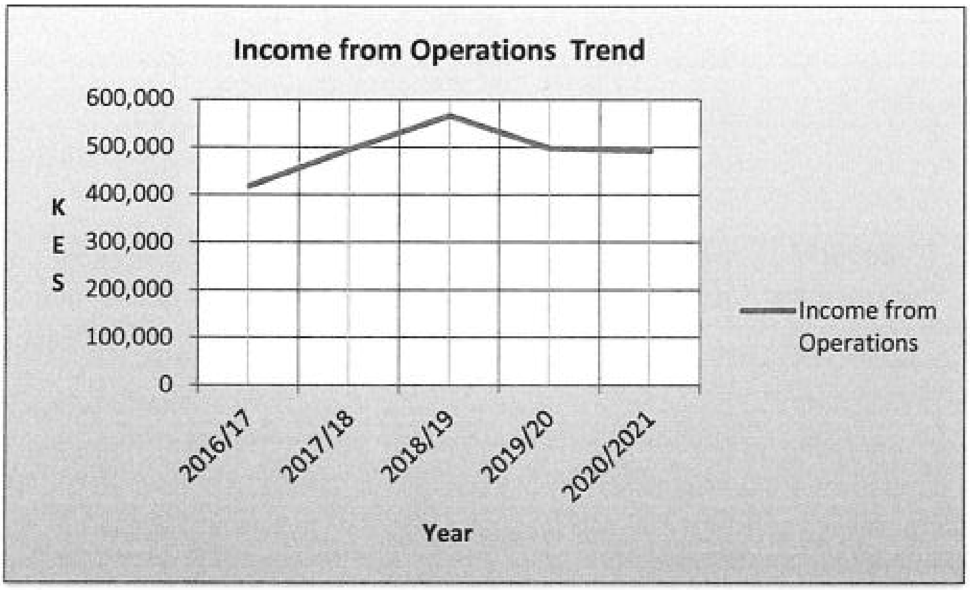
Financial Support/Donations

The Company spent Kes 937,000 on donations to facilitate CSR activities aimed at fostering cordial relationship with the local community and other stakeholders.

i) Income from operations

	2016/17	2017/18	2018/19	2019/20	2020/2021
INCOME	**Kshs000**	**Kshs000**	**Kshs000**	**Kshs000**	**Kshs000**
Income from Operations	417,908	493,972	565,875	497,230	491,001

Income from operations has gradually grown from Kshs 417 million in 2016/2017 to Kshs 491 million in 2020/2021 representing a 17% increase. On the same vein, there was a drop of 1% in the current financial year attributable to COVID-19 pandemic.

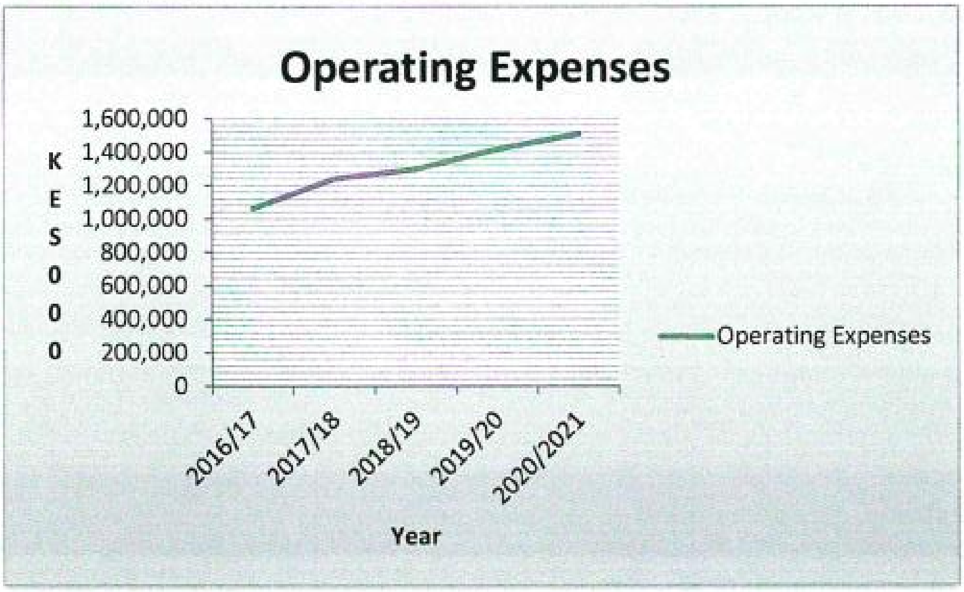


ii) Operations expenses

Operating expenses	2016/17	2017/18	2018/19	2019/20	2020/2021
	Kshs000	**Kshs000**	**Kshs000**	**Kshs000**	**Kshs000**
Operating Expenses	1,060,767	1,237,327	1,295,563	1,414,611	1,532,220

Operating expenses increased from Kshs1,061 million in 2016/2017 to Kshs1,532 million in 2020/2021

representing a 44% increase for a period of five years. Compared to last financial year, the increase is 8% attributable to inflationary factors and this is viewed as reasonable by management.



iii) Surplus/Deficit

	2016/17	2017/18	2018/19	2019/20	2020/21
	Kshs '000	**Kshs '000**	**Kshs '000**	**Kshs '000**	**Kshs '000**
Surplus/Deficit	(83,451)	43,229	68,962	(108,290)	(233,994)

The Company recorded an operating deficit of Kshs 83 million in 2016/2017 and managed to turnaround and made a surplus of Kshs 43 million and Kshs 69 in 2017/2018 and 2018/2019 respectively before recording deficits of Kshs 108 million and Kshs 234 million in 2019/2020 and 2020/2021 respectively attributable to COVID-19.

iv) Equity

	2016/17	2017/18	2018/19	2019/20	2020/21
Kshs	**"000"**	**"000"**	**"000"**	**"000"**	**"000"**
Equity	5,013,993	5,329,570	5,395,891	5,760,363	5,441,419

The Company's equity has risen from Kshs 5 billion in 2016/2017 to Kshs 5.4 billion in 2020/2021 translating to 9%. This is attributable to deferred income in form of Government Grants.

Projects implementation progress

Integrated Security Projects

In the year under review, the Company completed 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. The Company also partnered with National Bank of Kenya and is in the process of implementing a cashless toll collection system at Likoni Channel.

Ferry Rehabilitation

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 during the financial year. In addition, 2 caterpillar C12 engines and 2 Generator sets were fitted to MV Nyayo.

During the year, MV Kwale Prow Modification was completed. In addition, prow rehabilitation for the old fleet was undertaken and is currently 85% complete as at the end of the 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 hence improved safety and security.

During the year under review, the Company completed construction of the passenger waiting sheds at Island side. These now offer expanded holding capacity and more comfort hence customer friendly. In the wake of the Covid-19 pandemic, the immediate use of the facility has greatly reduced risk of exposure in line with MOH protocols in place.

Mtongwe Projects

The Company is constructing Ferry Landing Ramp on the mainland side of the Mtongwe channel. The project is 30% complete as at the end of the Financial Year. 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.

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 and the project worth Kshs1.6 billion was completed and commissioned on 15th December 2020 by H.E President Uhuru Kenyatta. The bridge has tremendously easen pressure off Likoni and Mtongwe Channels to a great extent.

Kenya Ferry Services Ltd (KFSL) Merger with Kenya Ports Authority
Following an Executive Order, a transfer agreement was signed on 16th June 2021 transferring all staff, operations, assets and liabilities of the defunct KFSL including the operation of Likoni Floating Bridge to Kenya Ports Authority. This process is envisaged to be completed in the next financial year.

Bakari Hamisi Gowa
Managing Director

STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2020/2021

	Strategic Pillar/Theme	Objective	Key Performance Indicator	Activities	Achievements
1.	**Modernization of Ferry Services**				
i	Ferry Craft Replacement (Ferry Insurance)	To ensure the vessel is protected against damage and also mitigate against exposure by third parties as a result of accidents.	No. of ferries insured/Policies issued	• Process of award of tender	• All vessels MV Jambo, Safari, Kilindini, Nyayo, Harambee, Kwale and Likoni insured
ii	Maintenance of ferry vessels	To comply with minimum marine standards by ensuring the vessels are mechanically sound and sea worthy	No. of ferries dry-docked/repaired	• Process of tender award • Works as per milestones	• MV Harambee dry docked and hydraulic/lifting system replaced • The prow for MV Kwale replaced
iii	Cashless Solution	To eliminate usage of cash at the channel and also to comply with COVID-19 protocols	Cashless platform	• Tender process • Construction works	• USSD *721# implemented with Safaricom Plc
2.	**Construction of jetties & ramps**				
i	Construction of Mtongwe Channel ramps	To offer an alternative passage channel to Likoni	% of Completion	• Mobilization by contractor • Milestone based	• 27% complete

STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2020/2021 (Cont..)

In regard to the Performance Contract (PC) 2020/2021;

i) Ferry vessels 7No. were insured during the year as per policies provided during audit review at a cost of Kshs128 Million. This activity therefore was achieved 100%.

ii) On Core (Mandate Section C), Construction of Mtongwe ramp is ongoing and was assessed at 27% as at 30th June 2021. Rehabilitation of ferry vessels for MV Nyayo and MV Harambee were at 100% and 90% respectively. This involved dry-docking and replacement of hydraulic power systems. The replacement of MV Kwale prow was successfully undertaken and the vessel is in use. The gradient of the prow has since been reduced for ease of embarkment and disembarkment of motor vehicles especially trucks and trailers.

iii) On the maintenance workshop, main workshop equipment planned for and acquired were lathe machine, heavy duty drilling machine, heavy-duty press machine, marking and working table, Mobile Crane, workshop toll rack, bench grinder and bench vice, work tables and store partitioning. The company achieved 100% target.

iv) On the cashless system, the Company implemented a Cashless System through use of USSD (*721#) at the toll stations. The USSD is operated on a mobile platform and provided by Safaricom Plc. The system is in use and is being upgraded in partnership with National Bank of Kenya to accommodate other forms of cashless payment modes such as e -wallet, other mobile money products, credit cards etc.

CORPORATE GOVERNANCE STATEMENT

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

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

Corporate governance guidelines

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

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

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

Composition of the Board of Directors

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

Role and responsibilities of the board

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

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

Role of Chairman of the Board of Directors

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

Managing Director

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. During the Financial Year, the Board attended an induction course at Kenya School of Government in Embu.

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
Mr. Salim Juma Chingabwi	1	0	0	0	1
Mr. Sudi Mwasinago	1	1	1	0	1
Ms. Sheila Nanjekho Makali	1	1	0	1	1
Mr. Mohamed Amin Sheikh	1	1	1	0	1
Mr. Genesio Njagi Mugo	1	1	0	1	1
Dr. Nuh Nassir Abdi	1	1	1	1	1
Mr. Philip Ndolo	1	1	0	1	1
Mr. Daniel Ndolo	1	1	1	0	1
Mr. Julius Segera	1	1	1	0	1
Mr. Bakari Gowa, MD KFSL	1	1	1	0	1

RISK MANAGEMENT

The board recognizes risk management as an important tool to safe guard the interest of the organization business. Following the Merger, the Strategic and Operational Risks have crystallised

ENVIRONMENT & SUSTAINABILITY REPORTING

KFSL exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, putting the customer/citizen first, delivering relevant goods and services and improving operational excellence. Below is an outline of the organization's policies and activities that promote sustainability.

i) Sustainability Strategy

KFSL operates in the marine industry, therefore continues to comply with applicable environmental laws and regulations. Our environmental sustainability involves making decisions and taking actions that are in the interest of protecting the natural sea habitat, with emphasis on preserving the capability of the environment to support human and marine life. KFSL recognizes that its operations have impacts on the environmental, social and economic aspects at the national and global level and hence the need to mainstream environmental sustainability objectives in all its operations and activities.

ii) Environmental Performance

KFSL is committed to environmental conservation and sustainably safeguarding the environment it shares with other communities in its areas of operations for now and future generations. The Company, due to low funding levels has not invested in any long-term programs dedicated to sustainable environmental conservation and promoting a tree planting culture within the organization save for occasional planting of mangrove tree seedlings at the shores of Indian Ocean in partnership with local communities.

However, at the operational channels of Mtongwe and Likoni, our environment conservation involves care of ecological resources. We try to limit oil seepage /spillage into the sea by our vessels by ensuring that the same are dry-docked every two years in compliance with marine standards.

iii) Employee Welfare

We are committed to providing and maintaining work conditions, equipment, and systems of work, which are safe and healthy for all our stakeholders including employees, ferry users, contractors, visitors, and other persons at or near our operations. As KFSL, promoting safety culture in workplace is anchored in our endeavor to comply with Marine best practices to achieve this continue to undertake reasonable and practical Health and Safety measures through maintaining policies and procedures to deal with safety and health issues in line with Occupational health & Safety Act 2007

iv) Market Place Practices

a) Responsible competition practice

KFSL ensures fairness prevails in all its market activities. Value for money to the organization has been the cornerstone of all our procurements in addition to compliance with Public Procurement and Asset Disposal Act, 2015 and Public Procurement and Asset Disposal Regulations 2020, KFSL endeavors to achieving the highest degree of professionalism, transparency, legal compliance and value for money in the procurement processes. We also have a Corruption Prevention Committee (CPC) in a bid to ensure all risk areas in our operations such as repairs, revenue, stores, procurement, human resources and operations are covered as per risk registers developed.

b) Responsible supply chain & Supplier relations

KFSL in compliance with Public Procurement and Asset Disposal Act, 2015 and Public Procurement and Asset Disposal Regulations 2020, ensures promotion of empowerment of the special groups through the Access to Government Procurement Opportunities (AGPO) whereby the Company allocates at least one third of non-critical supplies budget to this category of traders.

ENVIRONMENT & SUSTAINABILITY REPORTING (Cont..)

The Company endeavours to promote the Government's Buy Kenya Build Kenya initiative to promote local manufactures and products by buying locally manufactured products. This supports growth of the local industry for sustainable development.

The Company makes prompt payments to suppliers i.e. as per invoices/certificates submitted within 30 days. Where this is not feasible based on cash flow challenges, a scheme of payment plan is crafted in consultation with the suppliers and this has enabled us sustain the service.

c) Responsible marketing and advertisement

KFSL implemented ISO 9001:2008 Quality management standards in all its processes. Additionally, the ferry toll revenue pricing is undertaken as per the gazetted tariff structure which ensures that the services are of high levels of standard while maintaining fair pricing, transparency and accountability.

d) Product stewardship

At KFSL we ensure our service is safe and aim to protect ferry users, employees, customers, stakeholders and the environment from potential risks posed such as oil spillage, storm water, slippery ramps, smoke and decks and to comply with relevant laws. To ensure good product stewardship we assess and manage the service potential health, safety and environmental risks. A Safety Section in the Company is dedicated to identification, mitigation and reduction of the risks by communicating the potential hazards associated with ferry service through sharing of brochures, labels/stickers/signs etc. warning of hazards onboard vessels and ferry approach areas.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 30 June, 2021 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 30 June, 2021 are set out on page 25 to this document.

Dividends

The Company didn't not declare any dividends for the year 30 June 2021

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.

Auditors

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

By order of the Board

Elijah Kitur
Corporate Secretary
Mombasa
Date______________

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 30 June 2021. 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 30 June 2021 and of the *Company's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *Company*, which have been relied upon in the preparation of the *Company's* Financial Statements as well as the adequacy of the systems of internal financial control.

The Company's financial statements have been prepared on a going concern basis as Kenya Ports Authority. Following an Executive Order, a transfer agreement was signed on 16th June 2021 transferring all staff, operations, assets and liabilities of the defunct KFSL including the operation of Likoni Floating Bridge to Kenya Ports Authority

Approval of the Financial Statements

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

______________________	HB ______________________
Salim Chingabwi **Chairman**	**Bakari Hamisi Gowa** **Managing Director**

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA FERRY SERVICES LIMITED FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the Kenya Ferry Services Limited set out on pages 28 to 55, which comprise of the statement of financial position as at 30 June, 2021, 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, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenya Ferry Services Limited Act, 2006, the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Fully Depreciated Assets Still in Use

The statement of financial position as disclosed in Note 11 to the financial statement, reflects a balance of Kshs.4,322,315,000 in respect of property, plant and equipment which includes fully depreciated assets with a total historical cost of Kshs.115,672,000. However, as reported previously, Management did not recognize the economic values of the assets that were still in use as at the date of the financial statements as the same were carried at zero book values. This is contrary to the 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, records maintained indicated that the property, plant and equipment were valued in October 1996, which is about twenty-six years ago.

In the circumstances the completeness, accuracy and fair presentation of the property, plant and equipment balance of Kshs.4,322,315,000 could not be confirmed.

2. Unsupported Provision for Impairment on Staff Receivable

The statement of financial position as disclosed in Note 17 to the financial statements, reflects trade and other receivables balance of Kshs.412,617,000. Included in the amount is net staff receivables of Kshs.2,694,000 after a provision for impairment of Kshs.2,140,000. However, the basis of the provision and the applicable rate was not disclosed or explained.

In the circumstances, fair presentation and accuracy of the trade and other receivables balance of Kshs.412,617,000 could not be confirmed.

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

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects recurrent revenue budget and actual amount of Kshs.1,454,111,000 and Kshs.1,298,226,000 respectively, resulting to an under collection of Kshs.155,885,000 or 11 % of the budget. Similarly, the Company had a development revenue budget and actual amount of Kshs.437,200,000 and Kshs.300,000,000 respectively, resulting to an under collection of Kshs.137,200,000 or 31% of the budget which was however, not reflected in the statement of comparison of budget and actual amounts.

In the circumstances, the revenue under collection may have adversely affected operations and investment activities of the Company during the year under review.

Other Information

The Directors are responsible for the other information, which comprises the chairman's report, directors' report, the statement of corporate governance, management discussions and analysis, statement of environmental and sustainability reporting, corporate social responsibility statement 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 the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Non-Compliance with Public Sector Accounting Standard Board's Reporting Templates

Review of the financial statements and the accompanying other information submitted for audit revealed non-compliance with the financial reporting guidelines and template prescribed by the Public Sector Accounting Standards Board (PSASB) as follows:

i. The section of the report which contains the Chairman's statement and brief highlight of the key activities during the year, successes consolidated, challenges being faced and the way forward or future outlook for the organization was not signed.

ii. The statement of Directors' responsibilities and the statement of financial position were not signed by the Chairman of the Board.

iii. The date when the Board approved the financial statements was not indicated.

In the circumstances, the financial statements submitted for audit do not comply fully with the Public Sector Accounting Standards Board (PSASB) financial reporting guidelines.

2. Idle Weigh Bridges

The property, plant and equipment balance of Kshs.4,322,315,000 as at 30 June, 2021 includes an amount of Kshs.158,162,000 in respect of furniture and equipment. As previously reported, included in that amount are three (3) idle weigh bridge equipment with historical cost of Kshs.26,779,893 and carrying value of Kshs.4,205,988. Information provided for audit indicated that since installation of the weigh bridges in 2014 as tools for determining weight of vehicles and levying appropriate toll charges, the same has not been integrated within the Company's M-load systems for toll collection connected at the point of sale and Navision systems for accounting and financial reporting system.

In the circumstances, the Company has not received value for money from the weigh bridges.

3. Incomplete Staff Transition from the Kenya Ferry Services Limited to the Kenya Ports Authority

Section 3.1 of the Asset and Business Transfer Agreement between the Kenya Ferry Services Limited and the Kenya Ports Authority, provide that all staff of the Kenya Ferry Services Limited (KFS) were to be transferred to the Kenya Ports Authority (KPA) with their prevailing terms and conditions. However, as at the time of the audit in February, 2022, all the staff previously under KFS had not entered into employment contracts with KPA. Further, some KFS staff had not been re-deployed as expected and KPA did not pay the staff entertainment and tool allowances which was previously paid by KFS.

In the circumstances, Management is in breach of the terms of the Transfer Agreement.

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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether 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 agree with books of account.

Responsibilities of the Management and Board of Directors

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 Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern 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, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

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

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall 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 Company's 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 Company to express an opinion on the financial statements.

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

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

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

CPA Nancy Gathungu, CBS
<u>AUDITOR-GENERAL</u>

Nairobi

31 August, 2022

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 Shs'000'	2020 Shs'000'
Income from operations	2	491,001	497,230
Government compensation	3	415,000	432,500
Other incomes	4	7,177	6,209
Transfer from deferred income	5	385,048	370,382
TOTAL REVENUE		**1,298,225**	**1,306,321**
Operating costs	6	385,122	328,220
Administrative expenses	7	1,147,098	1,086,391
TOTAL EXPENSES		**1,532,220**	**1,414,611**
OPERATING DEFICIT		**(233,994)**	**(108,290)**

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2021

	Notes	As at 30 June 2021 Shs'000'	As at 30 June 2020 Shs'000'
Non-current assets			
Property, plant and equipment	11	4,322,315	4,311,179
Capital work in progress	12	399,501	336,527
Investment property	13	299,019	306,888
Prepaid operating lease rentals	14	1,462	1,728
Software	15	22,857	-
		5,045,155	4,956,321
Current assets			
Inventories	16	88,488	107,754
Trade and other receivables	17	412,617	403,110
Cash and cash equivalents	18	336,795	621,554
		837,899	1,132,419
		5,883,055	**6,088,741**
EQUITY AND LIABILITIES			
Shareholders Funds			
Share capital	21	499,904	499,904
Revaluation reserve		542,280	542,280
Retained earnings		(911,097)	(677,101)
Deferred income		5,310,331	5,395,280
		5,441,419	5,760,363
Current liabilities			
Trade and other payables	19	441,635	328,376
		5,883,055	**6,088,741**

The financial statements on pages 28 - 57 were approved and authorised for issue by the Board of Directors on ________________________2022 and were signed on its behalf by;

Salim Chingabwi **Chairman**	**Kombo Rajab Kombo** **Finance Manager** **ICPAK M/NO 12251**	**Bakari Hamisi Gowa**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2021

Year ended 30 June 2021	Notes	Ordinary Share Capital Shs'000'	Revaluation reserve Shs'000'	Retained earnings Shs'000'	Deferred income Shs'000'	Total Shs'000'
At start of year		499,904	542,280	(677,101)	5,395,279	5,760,362
Additional deferred income		-	-	-	300,000	300,000
Transfers to income statement		-	-	-	(384,948)	(384,948)
Deficit for the year		-	-	(233,994)	-	(233,994)
At end of year		**499,904**	**542,280**	**(911,096)**	**5,310,331**	**5,441,420**

Year ended 30 June 2020	Notes	Ordinary Share Capital Shs'000'	Revaluation reserve Shs'000'	Retained earnings Shs'000'	Deferred income Shs'000'	Total Shs'000'
At start of year		499,904	542,280	(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)
At end of year		**499,904**	**542,280**	**(677,101)**	**5,395,279**	**5,760,362**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2021

	Notes	2021 Shs'000	2020 Shs'000
Operating activities			
Cash generated used in operations	20	(68,308)	126,857
Net cash used in operating activities		(68,308)	126,857
Investing activities			
Cash paid for purchase of property, plant and equipment	11 & 15	(54,418)	(128,106)
Cash incurred on capital works in progress	12	(462,032)	(378,714)
Net cash used in investing activities		(516,451)	(506,820)
Financing activities			
Proceeds from:			
- Development grants (Gok)		300,000	800,000
Net cash from financing activities		300,000	800,000
(Decrease)/Increase in cash and cash equivalents		(284,759)	420,037
Movement in cash and cash equivalents			
At start of year		621,554	201,516
(Decrease)/Increase in cash and cash equivalents		(284,759)	420,037
At end of year	18	336,795	621,554

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	budget Shs"000"	Actual Shs"000"	Variance	Performance %
Revenues				
Income from operations	608,199	491,001	(117,198)	-19%
Government compensation	415,000	415,000	(0)	0%
Other incomes	12,860	7,177	(5,683)	-44%
Transfer from deferred income	418,052	385,048	(33,004)	-8%
Total revenue	**1,454,111**	**1,298,225**	**(155,885)**	-11%
Recurrent expenditures				
Staff costs	545,304	543,257	2,047	0%
Administrative expenses	530,231	587,404	(57,173)	-11%
Board expenses	17,836	16,437	1,399	8%
Operating costs	351,537	385,122	(33,585)	-10%
Total recurrent expenditure	**1,444,908**	**1,532,220**	**(87,312)**	-6%
OPERATING SURPLUS	**9,202**	**(233,994)**		

All variances that are over 10% are explained in the relevant notes to the financial statements on pages 33 - 57.

1. SIGNIFICANT ACCOUNTING POLICIES

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

a) **Statement of compliance and basis of preparation**

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

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

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

b) **Revenue recognition.**

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

b) **Revenue recognition (continued)**

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

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

c) **Government Grants.**

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

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

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

d) **Property, plant and equipment**

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Freehold land is not depreciated.

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

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) **Investment property**

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

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

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

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

g) **Intangible assets**

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

h) **Inventories**

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

i) **Finance and operating leases**

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) **Retirement benefit obligation**

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

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

k) **Cash and cash equivalents.**

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

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

l) **Exchange rates differences.**

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

m) **Financial assets.**

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

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

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

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.

NOTES (CONTINUED)

Details	Balance	01-06-21 ..30-06-21	01-05-21 ..31-05-21	01-04-21 ..30-04-21	Before 01-04-21
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Total Payables as at 30th June 2021	335,640	71,096	26,725	31,348	206,471

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, 2021.

The Company received the Audit Certificate issued by the Office of the Auditor General (OAG) for the financial year 2018/2019 & 2019/2020 late due to change of office at OAG and is yet to be invited at PIC. However, we have since cleared with Parliamentary Investment Committee (PIC) up to and including the financial year 2017/2018.

Progress on follow up of auditor recommendations (*Refer to Annex 1*)

NOTES (CONTINUED)

2. Income from Operations	2021 Shs'000'	2020 Shs'000'
Toll collection	481,310	478,169
Ferry priority passes	9,691	19,061
	491,001	**497,230**

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 491 million which represents a decrease of 1% compared to the year 2019/2020 earnings of Kshs 497 million. The Company failed to meet its yearly target on toll revenue by 19% i.e. Kshs 491 Million against a target of Kshs 608 Million. This is majorly attributable to the fact the COVID-19 pandemic led to a scale down of the operation and hence significant reduction of daily toll revenue by one third as a result of reduced activities during the pandemic.

In the next financial year 2021/2022, the Company targets to roll out a cashless collection system for toll revenue (this will be part of the large computerization programme being undertaken in the Company) to enhance controls and minimize toll leakages.

3. Government compensation	2021 Shs'000'	2020 Shs'000'
Recurrent grants received	**415,000**	**432,500**

During the year that ended the Company received a total of Kshs 415 million; compared to Kshs 433 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	2021 Shs'000'	2020 Shs'000'
Infrastructure rent income	-	3,741
Commercial adverts	940	1,946
Used oil, drums, and commission	6,237	406
Hire of ferries	-	116
	7,177	**6,209**

NOTES (CONTINUED)

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 an increase from Kshs 1 million in 2020/2021 to Kshs 7 million. This is attributed to disposal of boarded stores.

5. Deferred income	**2021 Shs'000'**	**2020 Shs'000'**
Ferry craft	189,788	189,788
Infrastructure Building	7,869	7,869
Office Building	1,235	1,235
Car Shade	9	9
Dry Docking	125,394	113,274
Ferry Generators	869	869
Ferry Engines	2,333	2,333
Safety Equipment	9,816	9,816
Mainland Ramp	1,558	1,558
Mtongwe Pontoon	6,370	6,370
Peleleza Jetty	6,058	6,058
Security Project	21,326	21,326
Schottel Steering System Nyayo	1,171	1,171
Furniture & Equipment	186	186
Computers	3,964	3,964
Island ramp	1,793	1,793
Island wall	1,012	1,012
Generator/Welder	263	263
Driveway Mainland	1488	1,488
Mobile Crane	2,546	-
Transfer for the year	**385,048**	**370,382**

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 4% to Kshs 385 million from Kshs 370 million. This is largely attributed to capitalization of drydocking in the financial year 2020/2021.

NOTES (CONTINUED)

6. Operating costs

	2021 Shs'000'	2020 Shs'000'
Fuel Oil & Lubricants	110,162	107,155
Ferry Insurance	120,920	78,894
Security Services	72,409	72,156
Ferry Maintenance - Spares	81,630	70,015
	385,122	**328,220**

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 385 million up from Kshs 328 million in the previous year 2019/2020. This is attributed to increase in fuel pump prices, ferry insurance costs as a result of a full year recognition of additional craft ie Mv Safari and ferry maintenance.

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 analyzed either by nature or by function and that their application has to be consistently and comparatively applied.

Administrative expenses	2021 Shs'000'	2020 Shs'000'
Staff costs (a)	543,257	537,533
Board costs (b)	16,437	9,537
Other administrative expenses (c)	587,404	539,321
	1,147,098	**1,086,391**

a Staff costs	2021 Shs'000'	2020 Shs'000'
Salaries and allowances	474,825	459,984
NSSF	685	816
Pension contribution	22,885	22,642
Gratuity	1,394	1,004
Leave Expense	(1,506)	25,633
Staff Welfare	44,975	27,454
	543,257	**537,533**

NOTES (CONTINUED)

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 543 Million against a budgetary provision of Kshs 545 Million. The cost is attributed to 10No leavers and recruitment of 12No joiners into the Company and staff medical expense change of providers from NHIF to UAP in FY 2019/2020 and FY 2020/2021 respectively.

Staff welfare includes staff medical cover, service pay and token of appreciation that may be paid. As at 30th June 2021, the Company had a staff compliment of 280 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.

The average number of employees at the end of the year was:	2021 No.	2020 No.
Permanent - Management	119	121
Permanent - Unionisable	157	164
Temporary & contract employee	4	1
	280	**286**

b. **Board costs**	2021 Shs'000'	2020 Shs'000'
Board expense	**16,437**	**9,537**

These are expenses incurred to cater for all forms of board activities ranging from sitting allowances, duty travel and accommodation. In the financial year 2020/2021, this expenditure increased by 38%

from Kshs 10 Million to Kshs 16 Million. This is attributed to the fact that we had a full Board of Directors that served the entire financial year as opposed to the previous financial year.

c Other Administrative Expenses	2021 Shs'000'	2020 Shs'000'
Water & Electricity	10,680	11,024
Telecommunication	7,578	5,573
Travel - Domestic & Foreign	11,724	18,634
Printing & Advertising	15,279	5,886
Subscription - Newspapers & Periodicals	35	289
Trade Shows & Exhibitions	108	3,357
Sports & Recreation	610	6,307
Rent & Rates	-	436
Training	6,882	7,072
IT Implementation & Training	4,251	2,819
Gifts Food and Drinks	7,465	3,676
Staff Uniforms	3,070	2,136
General Office Supplies	12,349	9,138
Sanitary & Cleaning	5,574	2,552
General Insurances	11,481	9,626
Legal	12,325	3,755
Contracted Professional Services	9,919	2,730
HIV & Gender Mainstreaming	785	252
Fuel - Motor Vehicles & Generators	1,012	493
Transport - Funeral	709	1,323
Fumigation	4,771	645
Bank Charges	400	261
Corporate Social Responsibility	937	1,839
Provision for doubtful debts	86	-
Provision for obsolete stock	5,555	-
Provision for Bad & Doubtful Debts	-	-
Planning & Research	803	1,518
Disaster Management	-	8,598
Disease Surveillance	6,564	12,781
Depreciation PPE	419,482	400,795
Investment Property	7,869	7,869
Amortisation - Prepaid Operating Lease	266	330
Motor Vehicle Maintenance	552	667
Maintenance - Building	3,853	-
Maintenance - Furniture and Equipment	14,429	6,936
	587,404	**539,321**

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 587 Million on other administration costs representing 9% increase in the current year compared to prior year 2019/2020. This is attributable to depreciation of property, plant and equipment that largely went up due to capitalization of assets, printing & advertising and obsolete stock provision.

8 Operating deficit

	2021 Shs'000'	2020 Shs'000'
The following items have been charged in arriving at operating surplus:		
Depreciation on property, plant and equipment (Note 11)	421,853	401,104
Depreciation on investment property (Note 13)	7,869	7,869
Amortisation of prepaid operating lease rentals (Note 14)	266	330
Auditors' remuneration (note 7d)	1,316	1,500
Board expenditures (note 7b)	16,437	9,537
Staff costs (Note 7a)	543,257	537,533

9 Depreciation expense

	2021 Shs'000'	2020 Shs'000'
Depreciation on property, plant and equipment (Note 11)	421,853	401,104
Depreciation on investment property (Note 13)	7,869	7,869
	429,722	**408,973**

10 Amortisation

	2021 Shs'000'	2020 Shs'000'
Prepaid operating lease rentals (Note 14)	266	330
	266	**330**

NOTES (CONTINUED)

11 Property, plant and equipment

Year ended 30 June 2021

	Ferry Vessels	Freehold land	Freehold Buildings	Computer & Led screen	Motor vehicles	Furniture & equipments		Driveway, watchtower, Sheds, roads Boat & Garden	Total
	Shs'000'	Shs'000'	Shs'000'	Shs'000'	Shs'000'	Shs'000'		Shs'000'	Shs'000'
Cost or valuation									
At start of year	4,738,804	16,537	906,884	128,419	14,143	571,830		88,645	6,465,263
Additions	47,054	-	-	5,308		851		-	53,213
Disposal	-	-	-	(116,151)	(14,143)	(301,070)	-	-	(431,364)
Transfer	173,163	-	131,612	-	-	63,007		-	367,783
At end of year	**4,959,021**	**16,537**	**1,038,497**	**17,576**	**-**	**334,618**	**-**	**88,645**	**6,454,894**
Depreciation									
At start of year	**1,400,548**	**-**	**112,029**	**122,295**	**14,143**	**435,739**	**-**	**69,330**	**2,154,084**
Disposal				(116,151)	(14,143)	(301,070)			(431,364)
Charge for the year	339,689	-	20,771	4,757	-	41,786		2,856	409,859
At end of year	**1,740,237**	**-**	**132,799**	**10,901**	**-**	**176,455**	**-**	**72,186**	**2,132,578**
Net book value	**3,218,783**	**16,537**	**905,698**	**6,675**	**-**	**158,162**	**-**	**16,460**	**4,322,315**

Included in Property, Plant & Equipment are the following which have been fully depreciated;

NOTES (CONTINUED)

DESCRIPTION	COST (KES) '000
Computers	2,580
Driveway	60,088
Furniture & Equipment	49,920
Leasehold Building	2,000
Software	1,084
	115,672

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'
Cost or valuation								
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	-	104,446		128,106
Transfer	1,367,155	-		-	-		14,884	1,382,038
At end of year	**4,738,804**	**16,537**	**906,884**	**128,419**	**14,143**	**571,830**	**88,645**	**6,465,263**
Depreciation								
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
At end of year	**1,400,548**	-	**112,029**	**122,295**	**14,143**	**435,739**	**69,330**	**2,154,084**
Net book value	**3,338,256**	**16,537**	**794,856**	**6,124**	-	**136,090**	**19,316**	**4,311,179**

12 Capital work in progress

	2021 Shs'000'	2020 Shs'000'
At start of year	336,527	1,339,851
Additons	462,032	378,714
Transfer to PPE (note 11)	(367,783)	(1,382,038)
Transfer to Intangible Assets	(31,275)	-
At end of year	**399,501**	**336,527**

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

	2021 Shs'000'	2020 Shs'000'
Cost		
At start of year	393,446	393,446
Depreciation		
At start of year	86,558	78,689
Charge for the year	7,869	7,869
At end of year	94,427	86,558
Net book value	**299,019**	**306,888**

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'	2021 Shs'000'	2020 Shs'000'
Cost				
At start and end of year	2,000	8,000	10,000	10,000
Amortization				
At start of year	2,000	6,272	8,272	7942
Charge for the year	-	266	266	330
At end of year	2,000	6,538	8,538	8,272
Net book value	**-**	**1,462**	**1,462**	**1728**

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.

15 Intangible assets

	2021 Shs'000'	2020 Shs'000'
Cost		
At start and end of year	18,138	18,138
Addition	1,206	-
Disposal	(17,054)	
Transfer from CWIP	31,275	
	33,565	18,138
Amortisation		
At start of year	(18,138)	(18,138)
Disposal	17,054	
Charge for the year	(9,624)	-
At end of year	(10,707)	(18,138)
Net book value	**22,857**	**-**

Intangible assets relate to various software used by the Company which include ACCPAC accounting software, payroll software (memory soft) among others. During the year, the Company rolled out an Mpesa Application Cashless solution.

16 Inventories

	2021 Shs'000'	2020 Shs'000'
Lubricants stocks	1,987	861
Stationery stocks	943	1,703
Spares parts	82,407	99,212
Hardware & Electricals	2,858	3,552
Paints	271	2,427
Consumables	21	0.34
	88,488	**107,754**
Spare parts		
Gross spare parts	88,779	155,276
Less: impairment provisions	(6,372)	(56,064)
	82,407	**99,212**

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.

17 Trade and other receivables

	2021 Shs'000'	2020 Shs'000'
Trade receivables	100,986	102,310
Less: Provision for bad debts	(67,418)	(67,418)
Net trade receivables	33,568	34,892
Deposits and prepayments	67,321	104,665
VAT recoverable	309,034	259,774
Net staff receivables	2,694	3,779
	412,617	**403,110**
Staff receivables		
Gross staff receivables	4,834	6,999
Less: Provision for impairment	(2,140)	(3,220)
Net staff receivables	2,694	3,779

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

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

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

The ageing analysis of gross trade receivables is as follows:

	2021 Shs'000'	2020 Shs'000'
0 to 30 days	740	1,569
31 to 60 days	543	494
61 to 90 days	32	94
Over 90 days	99,671	100,153
	100,986	**102,310**

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

	2021 Shs'000'	2020 Shs'000'
Cash at bank	336,795	621,454
Cash in hand	-	100
	336,795	**621,554**

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	2021 Shs'000'	2020 Shs'000'
Expenditure	01003057007200	Port house	1,158	4,640
Special	01003057007201	Port house	3	399
Development	01003057007202	Port house	331,109	614,180
Collection	01003057007203	Port house	4,525	2,235
			336,795	**621,454**

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.

19 Trade and other payables

	2021 Shs'000'	2020 Shs'000'
Current		
Trade payables	335,640	264,700
Other payables	105,995	63,677
Total trade and other payables	**441,635**	**328,376**

The carrying amounts of the Company's Trade and Other Payables are denominated in Kenya Shillings. 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 is part of what has been transferred to Kenya Ports Authority for settlement. The increase in Trade Payables is attributed to development projects relating to ferry dry docking activities and project retentions. The same shall be paid in the new financial year 2021/2022 as a first charge.

20 Cash used in operations

	2021 Shs'000'	2020 Shs'000'
Reconciliation of deficit to cash used in operations:		
Operating surplus	(237,007)	(108,290)
Adjustments for:		
Depreciation on property, plant and equipment (Note 11)	421,853	400,795
Depreciation on investment property (Note 13)	7,869	7,869
Amortisation of prepaid operating lease rentals (Note 14)	265	330
Transfer from deferred income	(382,402)	(370,382)
Changes in working capital:		
- Inventory	19,267	(24,871)
- Trade receivables	(9,592)	77,885
- Trade and other payables	111,439	143,522
Cash used in operations	**(68,308)**	**126,857**

Reconciliation of operating deficit to cash used in operations

21 Share capital

	2021 Shs'000'	2020 Shs'000'
Authorised:		
5,000,000(2020: 5,000,000) ordinary shares of		
Shs 100 each	500,000	500,000
Issued and fully paid:		
4,999,040 (2020: 4,999,040) ordinary shares of		
Shs 100 each	499,904	499,904

	2021	2020
22 Contingent Liabilities	**Kshs '000'**	**Kshs'000'**
Estimated gross claims: fatal& non-fatal	213,795	213,795
Claims paid on fatals & non fatals	(159,590)	(159,590)
Collective Bargain Agreement award	122,328	107,913
Total	**176,533**	**162,118**

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

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

The Company negotiated the CBA for the period 01st 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 122 Million and the same has been recognized as a contingent liability. The matter has since been appealed at the Court of Appeal.

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	**Property Plant & Equipment**				
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-mark the same for disposal. Asset tagging has also been initiated in the financial year 2019/2020. The same have subsequently been written off the books	Rajab Kombo: Finance Manager	resolved	1 year
1.2	Idle Assets-weighbridges	The Company has rolled out an Mpesa Application solution and is in partnership with National Bank of Kenya implementing a robust cashless solution that shall support the entire range of cashless payment options. The Weighbridges have since been removed and the Management intends to repurpose its use to pave way for the Implementation of the Cashless Solution	Peter Mathenge –Ag Chief Engineer Rajab Kombo: Finance Manager	Unresolved	1 year
1.3	Construction and delivery of two new ferries	• Evaluation process reviewed and cleared by PPRA • Due diligence on performance bond was conducted by our bankers National Bank of Kenya Ltd • Requisite taxes amounting to Kshs171M was paid to KRA • Delivery period delayed due to litigation process	Peter Mathenge –Ag Chief Engineer	Resolved	

2.0	**Trade and Other Receivables**				
2.1	Long outstanding debts Kshs62,953,129	Lustman & Co. (1990) Ltd case: The case has been fixed for hearing but adjourned a number of times. 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.	Elijah Kitur: Company Secretary & Head of Legal Services Rajab Kombo : Finance Manager	Unresolved	1 year
2.2	Staff receivables	• No staff has been cleared from the organization if he/she owes the Company • The Company is pursuing ex-staff debtors through a court process; those deceased their debts shall be written off	Thomas Kenga: Human Resource & Administration Manager	Unresolved	
3.0	**Trade and Other Payables**				
	Long outstanding payables Kshs 84,438,282 and taxes Kshs162,497,579 for MV Jambo	• The outstanding creditors have been paid in the financial year 2018/2019 as a first charge. • Requisite taxes amounting to Kshs171M was paid to KRA in respect of MV Jambo	Rajab Kombo : Finance Manager	Resolved	
4.0	**Income from operations**				
	Weighbridges not used as a basis to charge motorists	Basis for charging is length as contained in Legal Notice No. 4 Kenya Gazette Supplement No.3 2018	Peter Mathenge –Ag Chief Engineer	Resolved	1 month

Managing Director
Date.......................

Chairman of the Board
Date......................