REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA NATIONAL SHIPPING LINE LIMITED

FOR THE YEAR ENDED
30 JUNE, 2020

KNSL

KENYA NATIONAL SHIPPING LINE LTD

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2020

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

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I. KEY COMPANY INFORMATION

Background information

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

Principal Activities

The principal activity of the *Company* is shipping.

Directors

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

1.	Mr. Juvenal J.M. Shiundu	- Chairman	- Appointed on 06.05.2019
2.	Mr. Joseph Juma	- Ag. Managing Director	- Appointed on 17.07.2013
3.	Mrs. Nancy Karigithu, EBS	- PS, State Department for Shipping & Maritime	
4.	Dr. Julius Muia.	- PS, The National Treasury & Planning	
5.	Eng. Rashid Salim	- Ag. MD, Kenya Ports Authority	
6.	Capt. G Cuomo *	- Director	
7.	Peter Reschke ** (Late)	- Director - Passed on, not yet replaced.	

* Italian ** German

Corporate Secretary

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

Corporate Headquarters

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

I. KEY COMPANY INFORMATION (continued)

Corporate Contacts

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

Corporate Bankers

Kenya Commercial Bank Limited
P.O. Box 90254 - 80100
MOMBASA, KENYA

Barclays Bank of Kenya Limited
P.O. Box 90182 - 80100
MOMBASA, KENYA

Principal Auditor

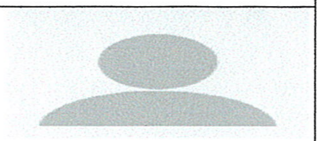
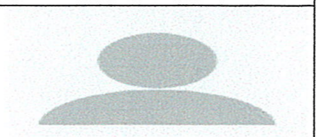
The Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084 - 00100
NAIROBI, KENYA

Principal Legal Advisers

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112 - 00200
NAIROBI, KENYA

Omondi Waweru & Company Advocates
P.O. Box 1606 - 80100
MOMBASA, KENYA

II. THE BOARD OF DIRECTORS

1.	Mr. Juvenal J.M Shiundu. Chairman, Board of Directors.	Master of Science in Maritime Safety Administration, Bachelor of Science (Hons), Naval Architecture and Ship building	
2.	Dr. Julius Muia, EBS Principal Secretary, The National Treasury & Panning.	Doctor of Philosophy (PhD) degree in Finance, Master's degree in Finance, Bachelor of Commerce (Accounting) degree.	
3.	Mrs. Nancy Karigithu, CBS. Principal Secretary, State Department for Shipping & Maritime.	Masters Degree in International Maritime Law, Bachelor's Degree in Law.	
4.	Eng. Rashid Salim Ag. Managing Director, Kenya Ports Authority.	HND in Marine Engineering (UK), Chief Engineer Certificate of Competency (COC).	
5.	Capt. G. Cuomo. Director.	Business person	
6.	Mr. Peter Reschke Director. (Passed on, not yet replaced).	Business person	
7.	Mr. Joseph Juma. Acting Managing Director.	MBA, PGD, CPA (K), CPS (K).	

II THE BOARD OF DIRECTORS (continued)

8. Mr. Tom Mokaya Alternate Director, The National Treasury.	Civil Servant	
9. Ms. Addraya Dena Company Secretary	Bachelor of Law (Hons) Degree and Diploma in Law from the Kenya School of Law. Certified Public Secretary (Kenya).	
10. Mr. Stephen Kyandih Company Secretary Representative	Bachelor of Law (Hons) Degree and Diploma in Law from the Kenya School of Law.	

Board Committees

Name of the Committee	Members
Finance and General Purpose Committee	1. Heywood Representative 2. Mr. Tom Mokaya
Audit and Risk Committee	1. Mrs. Nancy Karigithu, CBS 2. Eng. Rashid Salim

III. MANAGEMENT TEAM

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

IV. CHAIRMAN'S STATEMENT

The Chairman wishes to present the financial statements for the year ended June 30, 2020.

The company registered a loss of Kshs 47.87 million and Kshs 46.99 million for the year ending June 30, 2020 and year ending June 30, 2019 respectively. The Company performance was affected by lack of service provision.

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

The short-term objectives of the Company are:

(i) To position KNSL as a preferred Company in leveraging our national status to attract new market opportunities.

(ii) To develop business models that will sustain the company.

(iii) To build high performing organization and improve work environment.

(iv) Provide our customers with competitive, efficient and consistent global shipping service.

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

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

Juvenal J.M. Shiundu
Chairman, Board of Directors

V. REPORT OF THE MANAGING DIRECTOR

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

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

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

The company reported a loss of Kshs 47.87 million and Kshs 46.99 million for the year ending June 30, 2020 and June 30, 2019 respectively. The Company performed poorly due to lack of service provider.

The overall indication given by the financial position statement as at June 30, 2020 is that of negative net current assets. This implies that the company cannot meet, at least in the short term, its current obligations from the existing current assets.

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

(i) Restructuring of the company.

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

(iii) Resolving shareholding structure.

V REPORT OF THE MANAGING DIRECTOR (Continued)

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

Joseph Juma
Ag. Managing Director

VI. REVIEW OF COMPANY 'S PERFOMANCE FOR FY 2019/2020

Section 81 Subsection 2(f) of the Public Finance Management Act, 2012 requires the accounting officer to include in the financial statement, a statement of the national government entity's performance against predetermined objectives.

Restructure of KNSL

The Government of Kenya, through the inaugural National Maritime Conference of 2015 resolutions and communiqué, identified the urgent need to, in addition to exploitation and development of land-based resources, focus on and create a development agenda for the maritime domain in order to maximize competitive advantages in both maritime and national development agendas.

In its endeavor to facilitate and promote global maritime trade, Blue Economy Implementation Committee appointed by H.E. the President of the Republic of Kenya has identified the restructuring of Kenya National Shipping Line as a critical intervention with a potential of participating in the estimated Kshs 304 billion annual revenue paid out to foreign shipping lines.

KNSL annual work plans were based on the restructuring process. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The Company achieved its performance targets set for the FY 2019/2020 period as shareholding agreement between Kenya Ports Authority (KPA) and Mediterranean Shipping Company (MSC) were signed.

VII. CORPORATE GOVERNANCE STATEMENT

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

The day-to-day running of the business of the Company is bestowed on the Managing Director.

The role of the Board includes to:

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

Board Committees

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

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

VII CORPORATE GOVERNANCE STATEMENT (Continued)

There were four Board of Directors meetings held during the year as below:

Date of meeting	**Number of Members Present**	**Number of Members absent with apology**
8th July 2019	9	3
20th August 2019	10	2
25th November 2019	7	2
23rd January 2020	8	1

Out of the twelve BOD members, three are independent directors whose term expired during the year and are yet to be replaced. The chairman is appointed on a different date from the other three board members for succession planning.

The Board of Directors are usually evaluated by the State Corporations Advisory Committee. The Board evaluation was conducted on 20th August, 2020.

The directors are remunerated as per the Salaries and Remuneration Commission guidelines. The directors are paid sitting allowance while the chairman is also paid honorarium.

During the financial year 2019/20 there was no reported case of conflict of interest.

VIII. MANAGEMENT DISCUSSION AND ANALYSIS

SECTION A: OPERATIONAL AND FINANCIAL PERFORMANCE

As at June 30, 2020 the company had a shareholders' deficit of Sh 513,507,253 (2019: Sh. 465,633,870) and its current liabilities exceeded its current assets by Sh 26,194,895 (2019: Sh. 48,821,630) primarily because of the trading losses made in the past years. It also incurred a loss for the year ended 30 June 2020 of Sh 47,873,383 (2019: Sh. 46,987,078).

In the year ending June 30, 2020, the company performed poorly due to lack of service provision. The company therefore relied on alternative service routes which are uncompetitive and have minimal profit margin which cannot cover fixed operation costs. This led to loss of numerous bookings with the Company managing to register a lifting of 242 Teus in the year 2019/20.

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

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

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

SECTION B: COMPLIANCE WITH STATUTORY REQUIREMENTS

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

SECTION C: KEY PROJECTS AND INVESTMENT DECISIONS

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

VIII MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

SECTION D: MAJOR RISKS

(i) Operational Risk

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

(ii) Financial risk management

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

(iii) Foreign currency risk management

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

(iv) Credit risk management

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

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

VIII MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

(v) Liquidity risk management

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

SECTION E: MATERIAL ARREARS IN STATUTORY & OTHER FINANCIAL OBLIGATIONS

The company current liabilities decreased from Ksh 72.16 million in the year ending June 30, 2019 to Kshs 68.05 million in the year June 30, 2020.

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

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

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

IX. CORPORATE SOCIAL RESPONSIBILITY

Tree Planting Activity

On 7th December 2019, KNSL staff members together with the Kenya Prison Services representative, area Chief, and Shanzu Community participated in casuarinas tree planting event at Shanzu, Kisauni Constituency in Mombasa. This is in support of the National Tree Panting Program which is set up by the Ministry of Environment and Forestry. During the event, over 2000 casuarinas seedlings were planted at Kenya Prisons Services, Shanzu (Buston Annex).

Kenya Prison Services (Shanzu) have been working together with the Government and other state institutions to plant trees as a result of education and awareness on afforestation importance.

Figure 1: The team from KNSL, Kenya Prisons Services and Local Administration during the tree planting excercise.

IX CORPORATE SOCIAL RESPONSIBILITY (Continued)

Figure 2: The Ag. Managing Director plants a casuarina tree during the tree planting exercise.

Figure 3: The participants refresh after the tree planting exercise.

X. REPORT OF THE DIRECTORS

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

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

RESULTS
The results of the company for the year ended June 30, 2020 are set out on page 21-25.

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

Mrs. Esther Koimett was replaced by Mrs. Nancy Karigithu on 3rd September 2019 (KNSL's Transfer from State Department of Transport to State Department for Shipping & Maritime).

Dr. Kamau Thuge was replaced by Dr. Julius Muia, EBS as the Principal Secretary of National Treasury & Planning on 24th July 2019.

Dr. Arch Daniel O Manduku was replaced by Eng. Rashid Salim as the Managing Director of Kenya Ports Authority on 27th March 2020.

Mr. Farid Ahmed Swaleh, Mr. Jacob Mwarua and Ms. Poline Kanyora term as directors expired on 11th October 2019.

AUDITORS

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

By Order of the Board

for Wahu Daikwa
Corporate Secretary
Mombasa

Date: 25/09/2020

XI. STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

Approval of the financial statements

The *company's* financial statements were approved by the Board on 25/09/ 2020 and signed on its behalf by:

Director

Director

REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

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

REPORT OF THE AUDITOR-GENERAL ON KENYA NATIONAL SHIPPING LINE LIMITED FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya National Shipping Line Limited as set out on pages 21 to 46, which comprise the statement of financial position as at 30 June, 2020, and the statement of comprehensive income, statement of changes in equity, statement of cash flows, and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Kenya National Shipping Line Limited as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Omitted Non-Current Assets

The statement of financial position reflects a balance of Kshs.4,724,382 under vehicles and equipment which, as disclosed in Note 15 to the financial statements, includes an amount of Kshs.823,382 relating to computers, containers, furniture, fittings and equipment. As previously reported, the latter balance excludes seven (7) uninterruptible power supply (UPS) units procured at a cost of Kshs.66,500.

The vehicles and equipment balance of Kshs.4,724,382 also includes an amount of Kshs.3,901,000 in respect of motor vehicles out of which an amount of Kshs.3,900,000 relates to two motor vehicles donated by the Kenya Maritime Authority. Records provided for audit indicates that the donated motor vehicles were recognized at a cost of Kshs.5,200,000. However, a valuation report dated 10 May, 2019 indicated the value of

Kshs.1,023,520 for KBJ 580U and Kshs.1,764,747 for KBR 851U all totalling to Ksh.2,788,267, resulting in a variance of Kshs.2,411,733 which has not been explained.

Consequently, the accuracy of vehicles and equipment balance of Kshs.4,724,382 as at 30 June, 2020 could not be confirmed.

2. Trade and Other Receivables

The statement of financial position reflects a balance of Kshs.23,734,004 under trade and other receivables which, as disclosed in Note 21 to the financial statements, is net of provision for bad and doubtful trade receivables of Kshs.49,861,917. The following observations were made:

2.1 Unsupported Trade Receivables

The trade and other receivables balance includes trade receivables of Kshs.38,524,786 as at 30 June, 2020. However, the trade receivables were not supported with invoice details and customers statements of account to confirm when services were provided.

Consequently, the accuracy, validity and recoverability of trade receivables balance of Kshs.38,524,786 as at 30 June, 2020 could not be confirmed.

2.2 Provision for Bad and Doubtful Debts

The schedule provided by Management in support the provision for bad and doubtful debts of Kshs.49,861,917 indicated that the provision was based on Management's review of the possibility of recovery instead of the Company's Finance Policy, which states that 'unsettled debts for a period under two years shall attract 50% provision for bad and doubtful debts while those remaining outstanding for over two years shall attract 100% provision for bad and doubtful debts'.

Consequently, the accuracy and recoverability of net trade and other receivables balance of Kshs.23,734,004 as at 30 June, 2020 could not be confirmed.

3. Unsupported Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.41,379,006 as at 30 June, 2020. Included in the balance is an amount of Kshs.386,906 in respect of Pay-As-You Earn (PAYE) due on or before June, 2017 which had not been remitted to the Kenya Revenue Authority as at 30 June, 2020.

Further, included in the trade and other payables balance is an amount of Kshs.5,723,051 due to container leasing companies. The companies have since stopped sending invoices for container leasing charges and monthly statements in respect of the amount due. The amount of Kshs.5,723,051 is based on balances outstanding when statements were last received from the container leasing companies, hence not up to date or supported.

Consequently, the accuracy, validity and completeness of trade and other payables balance of Kshs.41,379,006 as at 30 June, 2020 could not be confirmed.

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

Emphasis of Matter

1. Share Capital - Long Outstanding Funds Awaiting Allotment

As previously reported, and as disclosed in Note 23 to the financial statements, the statement of financial position as at 30 June, 2020 reflects funds awaiting allotment of shares balance of Kshs.73,681,500 equivalent to 147,363 shares, being additional shares to be shared between the Kenya Ports Authority - 38,670 shares and a new shareholder, Mediterranean Shipping Company (MSC) under the name of Heywood Shipping Company Limited (formerly United Agencies Limited) -108,693 shares. Available information revealed that at their 24th meeting held on 31 July, 1997, the Board of Directors through a special resolution by the three (3) initial shareholders namely: the Kenya Ports Authority, Unimar and DEG introduced a strategic partner M/s. Mediterranean Shipping Company. Although, the strategic partner paid a sum of Kshs.54,346,500, it is not clear how the strategic partner was identified and allotted 108,693 new shares.

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

2. Material Uncertainty in Relation to Going Concern

As previously reported, the statement of comprehensive income reflects a loss of Kshs.47,873,383 resulting in an accumulated deficit of Kshs.513,507,253. Further, the current liabilities balance of Kshs.68,054,192 exceeded the current assets of Kshs.41,859,297, resulting in a negative working capital of Kshs.26,194,895 as at 30 June, 2020. The Directors have stated that the Company's going concern depends on implementation of various strategies, whose success is yet to be realized. Under the circumstances, the financial statements have been prepared on a going concern basis on the assumption that the Company will continue to get financial support from the National Government, shareholders and creditors.

My opinion is not modified in respect of this matter.

Key Audit Matters

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

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects actual receipts totalling Kshs.75,600,394 against an approved budget of Kshs.72,429,000 resulting in an over-collection of Kshs.3,171,394 or 4% of the total budget. Further, actual expenditure for the year amounted to Kshs.52,473,777 against a budget of Kshs.71,075,000 resulting in an under expenditure of Kshs.18,601,223 or 26% of the total budget. The under-expenditure was attributed to unfilled job positions, savings on variable expenses due to Covid-19 pandemic and reduced foreign travels by the Board. However, the under-expenditure may have impacted negatively on the achievement of the planed goals and objectives of the Company.

Other Information

The Directors are responsible for the other information. The other information comprises the Report of Directors as required by the Companies Act, 2015, and the Statement of the Directors' Responsibilities which are obtained prior to the date of this report, and the Annual Report which is expected to be made available after that date. The Directors are responsible for the other information. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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. Over Contributions to Pension Fund

The statement of comprehensive income reflects an expenditure of Kshs.30,057,649 under employment costs which, as disclosed in Note 11 to the financial statements, includes an amount of Kshs.3,538,626 relating to pension fund contributions. However, records provided for audit review indicated that the amount comprises employer contribution of 20% of the basic salary plus house allowance instead of Kshs.3,035,289 based on basic salary only. This is contrary to The National Treasury Circular No. 18/2010 of 24 November, 2010 which states that, 'personal emoluments must be defined as basic salary excluding housing, transport and any other allowances or fluctuating emoluments'. This resulted in a higher contribution of Kshs.503,337 by the employer.

Consequently, Management was in breach of the law.

2. Overpayment of Employment Costs

The statement of comprehensive income reflects employment costs of Kshs.30,057,649 which, as disclosed in Note 11 to the financial statements, includes an expenditure of Kshs.21,305,289 in respect of salaries and wages. The latter balance includes an amount of Kshs.549,114 being salary overpaid to a Chief Accountant who was doubling as the Acting Managing Director. The overpayment was as a result of 10% increment approved by the Board to a monthly basic salary of Kshs.290,397 against the maximum basic salary of Kshs.263,997 set by Salaries and Remuneration Commission vide SRC Circular No. SRC/TS/JE/3/33/2 Vol III (109) dated 15 December, 2017.

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

In addition, the salaries and wages balance includes an amount of Kshs.522,714, being acting allowance paid to the Managing Director who has been serving in an acting capacity for seven years. This is contrary to Section C.14(1) of the Public Service Commission Human Resources Policies and Procedures Manual for Public Service which states that acting allowance will not be payable to an officer for more than six months.

Under the circumstances, the propriety and validity of the expenditure of Kshs.1,551,828 on employment costs for the year ended 30 June, 2020 could not be confirmed.

3. Unapproved Entertainment Allowances

The statement of comprehensive income reflects administration costs of Kshs.18,611,106, which, as disclosed in Note 12 to the financial statements, includes an amount of Kshs.789,241 is in respect of entertainment expenses. The latter balance includes an amount of Kshs.275,000 paid as end of year vouchers to seventeen (17) members of staff. However, there was no program-based budget to confirm that the item was provided for in the budget as part of entertainment allowances.

4. Engagement in Business Activities Contrary to the Law

A review of the Company's 67th Board Meeting minutes revealed that the Kenya National Shipping Line Limited intended to engage in the business of shipping, logistics, ship management, crew and terminal manning, oil and gas following the restructuring. However, this is contrary to Section 16 of the Merchants Shipping Act, 2009 which states that no owner of a ship or person providing the service of a shipping line shall, either directly or indirectly, provide in the maritime industry the service of crewing agencies, pilotage, clearing and forwarding agent, port facility operator, shipping agent, terminal operator, container freight station, quay side service provider, general ship contractor, haulage, empty container depots, ship chandler or such other service as the Minister may appoint.

Under the circumstances, the legality of the envisioned reorganization could not be confirmed.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

Lack of Internal Audit Function

The Company did not have an Internal Audit Function to carry out internal control assessments of the Company`s operations and to act as a secretariat to the Audit and Risk Committee of the Board. The absence of such a function implies weak internal control environment, weak oversight, high risk of non-alignment of the Company's operations to its strategy and objectives and non-effectiveness of operational processes. Further, failure to establish an Internal Audit Function is contrary to Section 73(1)(a) of the Public Finance Management Act, 2012 which states that every national government entity should ensure that it has appropriate arrangements in place for conducting internal audit according to the guidelines of the Accounting Standards Board.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires 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 No.-17 of 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, adequate accounting records have been kept by the Company's, so far as appears from the examination of those records;

(iii) The Company's financial statement are in agreement with and the accounting records and returns.

Responsibilities of Management and the Board of Directors

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion with limited assurance as to whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

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

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

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

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

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

- Conclude on the appropriateness of the Management's use of the 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.

Nancy Gathungu
AUDITOR-GENERAL

Nairobi

16 November, 2021

XIII. STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2020

	Note	2020	2019
		Kshs	Kshs
REVENUES			
Service Income	8	790,614	665,968
Other Income	9	2,687,365	508,504
TOTAL REVENUES		**3,477,979**	**1,174,472**
OPERATING EXPENSES			
Service Costs	10	(511,908)	(18,076)
Employment Costs	11	(30,057,649)	(26,767,091)
Administration Costs	12	(18,611,106)	(20,995,845)
Depreciation Expenses	15	(1,470,344)	(98,509)
Amortisation of Intangible Assets	16	(31,551)	(31,551)
TOTAL OPERATING EXPENSES		**(50,682,558)**	**(47,911,072)**
OPERATING LOSS		**(47,204,579)**	**(46,736,600)**
Finance Income	17	686,965	118,727
Gain on Disposal of Non-financial Assets	18	435,450	200,750
Finance Costs	19	(1,791,219)	(569,955)
LOSS BEFORE TAXATION		**(47,873,383)**	**(46,987,078)**
TAXATION CHARGE	13	-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(47,873,383)**	**(46,987,078)**

XIV. STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2020

	Note	2020 Kshs	2019 Kshs
ASSETS			
Non-Current Assets			
Vehicles and equipment	15	4,724,382	292,949
Intangible assets	16	157,760	189,311
		4,882,142	**482,260**
Current Assets			
Inventories & Stores	20	508,810	515,703
Trade and other receivables	21	23,734,004	20,102,999
Bank and cash balances	22	17,616,483	2,725,078
		41,859,297	**23,343,780**
TOTAL ASSETS		**46,741,439**	**23,826,040**
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	23	93,523,000	93,523,000
Funds awaiting allotment of shares	23	73,681,500	73,681,500
Capital Grants From Government	23	321,090,000	250,090,000
Accumulated deficit		(513,507,253)	(465,633,870)
Capital and Reserves		**(25,212,753)**	**(48,339,370)**
Long term liability			
Deferred Income	24	3,900,000	-
		3,900,000	-
Current Liabilities			
Trade and other payables	25	41,379,006	45,490,224
Due to related party	26	26,675,186	26,675,186
		68,054,192	**72,165,410**
TOTAL EQUITY AND LIABILITIES		**46,741,439**	**23,826,040**

The financial statements were approved by the Board on 25/09/ 2020 and signed on its behalf by:

Chairman of the Board
Juvenal J.M. Shiundu

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

XV. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2020

	Ordinary share capital	Funds awaiting allotment of shares	Capital Grants From Government	Accumulated deficit	Total
At July 1 , 2018	**93,523,000**	**73,681,500**	**215,350,000**	**(418,646,792)**	**(36,092,292)**
Total comprehensive loss for the year	-	-	-	(46,987,078)	(46,987,078)
Capital Grants From Government	-	-	44,590,000	-	44,590,000
Capital Grants From Government – Refund to Blue Economy	-	-	(9,850,000)	-	(9,850,000)
At June 30, 2019	**93,523,000**	**73,681,500**	**250,090,000**	**(465,633,870)**	**(48,339,370)**
At July 1 , 2019	**93,523,000**	**73,681,500**	**250,090,000**	**(465,633,870)**	**(48,339,370)**
Total comprehensive loss for the year	-	-	-	(47,873,383)	(47,873,383)
Capital Grants From Government	-	-	71,000,000	-	71,000,000
At June 30, 2020	**93,523,000**	**73,681,500**	**321,090,000**	**(513,507,253)**	**(25,212,753)**
			(Note 23)	(Note 23)	

XVI. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2020

	Note	2020 Kshs	2019 Kshs
OPERATING ACTIVITIES			
Cash used in operations	28	(55,842,268)	(46,637,500)
Interest received		-	-
Net cash used in operating activities		**(55,842,268)**	**(46,637,500)**
INVESTING ACTIVITIES			
Purchase of equipment	15	(701,777)	(61,495)
Proceeds from disposal of equipment		435,450	-
Net cash used in investing activities		**(266,327)**	**(61,495)**
FINANCING ACTIVITIES			
Proceeds from capital injection	23	71,000,000	44,590,000
Refund of Government Grants from Blue Economy		-	(9,850,000)
Net cash generated from financing activities		**71,000,000**	**34,740,000**
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**14,891,405**	**(11,958,995)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**2,725,078**	**14,684,073**
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**17,616,483**	**2,725,078**

XVII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2020

	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Performance Difference	Explanation of Material Variance
	2019-2020	2019-2020	2019-2020	2019-2020	2019-2020	
Revenue	**Kshs**	**Kshs**	**Kshs**	**Kshs**	**Kshs**	
Service Income	1,110,000	-	1,110,000	790,614	(319,386)	Minimal trading due to lack of service.
Government grants	71,000,000	-	71,000,000	71,000,000	-	
Finance Income	319,000	-	319,000	1,122,415	803,415	Gain on sale of assets and foreign exchange gain.
Other income	-	-	-	2,687,365	2,687,365	Deferred Income from donated motor vehicles and income on lieu of notice.
Total income	**72,429,000**	-	**72,429,000**	**75,600,394**	**3,171,394**	
Expenses						
Service Costs	-	-	-	511,908	511,908	Storage cost on disposed containers.
Employment Costs	33,548,000	-	33,548,000	30,057,649	(3,490,351)	Some job positions remained unfilled.
Administration Costs	21,691,000	-	21,691,000	12,566,048	(9,124,952)	General savings from variable expenses due to COVID-19 limitations.
Board Expenses	11,952,000	-	11,952,000	3,241,258	(8,710,742)	General savings from Board on foreign travel and vacant positions.
Rent Expenses	3,252,000	-	3,252,000	2,803,800	(448,200)	VAT Claimed.
Depreciation Expenses	317,000	-	317,000	1,501,895	1,184,895	Depreciation charge on donated motor vehicles.
Finance cost	315,000	-	315,000	1,791,219	1,476,219	Resulted from foreign exchange losses.
Total expenditure	**71,075,000**	-	**71,075,000**	**52,473,777**	**18,601,223**	
Surplus/ (Deficit) for the period	**1,354,000**	-	**1,354,000**	**23,126,617**	**(21,772,617)**	

XVIII. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

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

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

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

(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2020

IFRS 16: Leases

The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model, which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the Company is the lessee. The Company has a low value rental lease which is not applicable under IFRS 16.

XVIII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(i) **Relevant new standards and amendments to published standards effective for the year ended 30 June 2020 (Continued)**

IFRIC 23: Uncertainty Over income tax treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances.

The application of this interpretation has had no material impact on the disclosures or on the amounts recognised in the company's financial statements.

Amendments to IFRS 9 titled Prepayment Features with Negative Compensation (issued in October 2017)
The amendments, applicable to annual periods beginning on or after 1 January 2020, allow entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.
The application of this interpretation has had no material impact on the disclosures or on the amounts recognised in the company's financial statements.

Amendments to IAS 28 titled Long-term Interests in Associates and Joint Ventures (issued in October 2017)
The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures.

The application of this interpretation has had no material impact on the disclosures or on the amounts recognised in the company's financial statements.

Amendments to IFRS 3 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017
The amendments, applicable to annual periods beginning on or after 1st January 2020, provide additional guidance on applying the acquisition method to particular types of business combination.

The application of this interpretation has had no material impact on the disclosures or on the amounts recognised in the company's financial statements.

Amendments to IAS 12 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017
The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions to which they are linked.

The application of this interpretation has had no material impact on the disclosures or on the amounts recognised in the company's financial statements.

XVIII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2020 (Continued)

Amendments to IAS 19 titled Plan Amendment, Curtailment or Settlement (issued in February 2019)
The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2020, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity re-measures its net defined benefit liability (asset) in the manner specified in the amended standard.
The application of this interpretation has had no material impact on the disclosures or on the amounts recognised in the company's financial statements.

(ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020

IFRS 17 Insurance Contracts (Issued 18 May 2017)
IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as of 1 January 2021

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

(iii) Early adoption of standards

The Company did not early – adopt any new or amended standards in year 2020.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the Company's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the Company's activities as described below.

XVIII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) **Revenue recognition** (Continued)

i) **Service Income** is recognised in the year in which the Company renders the shipping services to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

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

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

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

b) **Vehicles and equipment**

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

c) **Depreciation**

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

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

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

d) **Intangible Assets**

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

e) **Impairment**

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

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

XVIII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Accounting for leases

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged

The company as lessee
Rentals payable are of low value and are charged to the profit or loss.

g) Inventories

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

h) Trade and other receivables

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

i) Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and
Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

XVIII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred tax (Continued)

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated

with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

j) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank. Bank account balances include amounts held at various Commercial Banks at the end of the reporting period.

k) Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

l) Retirement benefit obligations

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

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

m) Provision for staff leave pay

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

XVIII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Exchange rate differences

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

o) Budget Information

The original budget for FY 2019-2020 was approved by the National Assembly. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

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

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

p) Comparatives

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

q) Subsequent events

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

5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

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

XVIII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

(a) Critical judgements in applying accounting policies

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

(b) Key sources of estimation uncertainty

Impairment losses

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

Vehicles, equipment and intangible assets

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

Contingent liabilities

As disclosed in note 27 to these financial statements, the company is exposed to various contingent liabilities in the normal course of business including certain pending audits with Kenya Revenue Authority and a number of outstanding legal cases. The directors evaluate the status of these exposures on a regular basis to assess the probability of the company incurring related liabilities. However, provisions are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established.

6 GOING CONCERN

As at June 30, 2020 the company had a shareholders' deficit of Sh 513,507,253 (2019: Sh. 465,633,870) and its current liabilities exceeded its current assets by Sh 26,194,895 (2019: Sh. 48,821,630) primarily because of the trading losses made in the past years. It also incurred a loss for the year ended 30 June 2020 of Sh 47,873,383 (2019: Sh. 46,987,078).

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

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

XVIII NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 ADMINISTRATION COSTS

	2020 Kshs	2019 Kshs
Advertising & marketing	283,045	251,211
Audit fees	450,000	450,000
Bad debts recovered	(1,861,159)	(51,849)
Bank charges	165,733	160,387
Board expenses	3,241,258	5,829,534
Donations	300,000	-
Electricity & water	120,885	113,531
Entertainment	789,241	943,495
Insurance	565,687	535,628
Legal and professional	400,000	601,220
Other/miscellaneous expenses	1,054,126	890,322
Motor vehicle running	565,672	676,575
Penalties	207,923	3,938
Printing and stationery	326,001	496,849
Rent	2,803,800	2,803,800
Repairs and maintenance	124,680	285,386
Corporate social responsibilities	248,450	200,000
Subscriptions and renewals	138,567	192,519
Telecommunication	669,121	777,154
Transport, travelling and accommodation	8,018,076	5,836,145
	18,611,106	20,995,845

13 TAXATION

(a) Current Taxation

	2020 Sh.	**2019** Sh.
Current taxation based on the taxable (loss)/profit for the year at 30%	-	-
Current year deferred tax charge	-	-
Prior year under-provision for deferred tax	-	-
	-	-

(b) Reconciliation of tax expense/ (credit) to the expected tax based on accounting (loss)/profit

	2020 Sh.	2019 Sh.
Accounting (loss)/profit before taxation	(47,873,383)	(46,987,078)
Tax at the applicable tax rate of 30%	(14,362,015)	(14,096,123)
Tax effects of expenses not deductible for tax purposes	967,431	993,850
Tax effects of income not taxable	-	-
Tax effects of excess capital allowances over depreciation/amortization	30,878	14,394
Deferred taxation movement not recognised	13,363,706	13,087,879
	-	-

As at 30 June 2020, the Company had tax losses amounting to Sh. 368,000,081 (2019 – Sh. 320,210,094) available for set-off against future taxable profits.

XVIII NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 DEFERRED TAXATION

As at 30 June 2020, there was a potential deferred tax asset which has not been recognised in these financial statements because of the uncertainty regarding the company's ability to generate sufficient future taxable profits against which the accumulated tax losses can be utilised.

15 VEHICLES AND EQUIPMENT

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

XVIII NOTES TO THE FINANCIAL STATEMENTS (Continued)

7 LOSS BEFORE TAXATION

	2020 Kshs	2019 Kshs
The loss before taxation is arrived at after charging / (crediting):		
Auditors' remuneration	450,000	450,000
Bad debts less recoveries	(1,861,159)	(51,849)
Depreciation on motor vehicles and equipment	1,470,344	98,509
Amortisation of Intangible Asset	31,551	31,551
Employments costs	30,057,649	26,767,091
Operating lease rentals	2,803,800	2,803,800

8 SERVICE INCOME

	2020 Kshs	2019 Kshs
Local Income - Documentation fees, Delivery Charges etc	32,773	18,051
Container Demurrage Revenue	1,680	1,680
Miscellaneous Revenue - Local	756,161	646,237
	790,614	665,968

9 OTHER INCOME

	2020 Kshs	2019 Kshs
Other Miscellaneous Receipts	187,365	508,504
Deferred Income from donated motor vehicles	1,300,000	-
Other Income - in lieu of notice	1,200,000	-
	2,687,365	508,504

10 SERVICE COSTS

	2020 Kshs	2019 Kshs
Discharging Charges	-	15,540
Containers Costs	511,908	2,536
	511,908	18,076

11 EMPLOYMENT COSTS

	2020 Kshs	2019 Kshs
Salaries and wages	21,305,289	18,985,000
Pension funds contributions	3,538,626	3,262,690
Medical expenses	3,955,745	3,424,657
Staff training and welfare	1,217,189	1,054,344
NSSF contributions	40,800	40,400
	30,057,649	26,767,091

The average number of employees at the end of the year was:

	2020	2019
Permanent employees – Management	4	4
Permanent employees – Non -Managerial	12	12
Temporary and contract employees	1	1
	17	17

XVIII NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 VEHICLES AND EQUIPMENT (Continued)

2020	Motor vehicles,	Computers, Containers, furniture, fittings & equipment	Total
COST	Ksh	Ksh	Ksh
At July 1, 2019	4,397,301	10,571,012	14,968,313
Additions	5,200,000	701,777	5,901,777
Disposals	(893,100)	(1,476,826)	(2,369,926)
At June 30, 2020	**8,704,201**	**9,795,963**	**18,500,164**
DEPRECIATION			
At July 1, 2019	4,396,301	10,279,063	14,675,364
Charge for the year	1,300,000	170,344	1,470,344
Eliminated on disposal	(893,100)	(1,476,826)	(2,369,926)
At June 30, 2020	**4,803,201**	**8,972,581**	**13,775,782**
NET BOOK VALUE			
At June 30, 2020	**3,901,000**	**823,382**	**4,724,382**

At 30 June 2020, vehicles and equipment with a cost of Kshs 13,040,865 (2019: Kshs 14,399,684) had been fully depreciated.

During the financial year under review, the Company received donation in-kind of two motor vehicles from a sister State Corporation valued at Sh. 5,200,000. The motor vehicles have been depreciated in line with the Company depreciation policy

XVIII NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 INTANGIBLE ASSETS

	2020 Kshs	2019 Kshs
COST		
At 1 July	737,434	737,434
Additions	-	-
At 30 June	737,434	737,434
AMORTISATION		
At 1 July	548,123	516,572
Charge for the year	31,551	31,551
At 30 June	579,674	548,123
NET BOOK VALUE		
At 30 June	157,760	189,311

At 30 June 2020, intangible assets with a cost of Sh 485,020 had been fully amortised.

17 FINANCE INCOME

	2020 Kshs	2019 Kshs
Unrealized foreign exchange gain	686,965	118,727
Interest on fixed deposit	-	-
	686,965	118,727

18 GAIN ON DISPOSAL OF NON-FINANCIAL ASSETS

	2020 Kshs	2019 Kshs
Gain on disposal of non-financial assets	435,450	200,750

19 FINANCE COSTS

	2020 Kshs	2019 Kshs
Taxation	158,240	-
Unrealized foreign exchange loss	1,632,979	569,955
	1,791,219	569,955

20 INVENTORIES

	2020 Kshs	2019 Kshs
Stationery and general stores	652,144	659,037
Provision for obsolete stocks	(143,334)	(143,334)
	508,810	515,703

21 TRADE AND OTHER RECEIVABLES

	2020 Kshs	2019 Kshs
Trade receivables	38,524,786	38,170,111
Deposits and prepayments	5,845,100	5,508,215
VAT recoverable	11,550,114	10,634,294
Withholding tax	-	34,089
Other receivables	17,675,921	17,188,289
Gross trade and other receivables	73,595,921	71,534,998
Provision for bad and doubtful trade receivables	(49,861,917)	(51,431,999)
Net trade and other receivables	23,734,004	20,102,999

XVIII NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2020	2019
	Kshs	Kshs
22 BANK AND CASH BALANCES		
Kenya Commercial Bank (Kshs A/C)	6,962,370	911,359
Kenya Commercial Bank (Usd A/C)	5,151,045	430,015
Absa Bank Kenya PLC (Barclays Bank of Kenya) - Khs A/C	3,066,969	75,866
Absa Bank Kenya PLC (Barclays Bank of Kenya) - Usd A/C	2,396,099	1,200,487
Barclays Bank of London (Usd A/C)	-	67,351
Cash in hand	40,000	40,000
	17,616,483	2,725,078

23 SHARE CAPITAL

23 (a) ORDINARY SHARE CAPITAL

	2020	2019
Authorised:		
200,000 ordinary shares of Sh.1,000 each	200,000,000	200,000,000
Issued and fully paid:		
93,523 ordinary shares of Sh.1,000 each	93,523,000	93,523,000

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

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

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

23 (b) FUNDS AWAITING ALLOTMENT

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

XVIII NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 (c) CAPITAL GRANTS FROM GOVERNMENT

Since July 2013, the Government through Kenya Ports Authority has injected capital of Sh. 321,090,000 (2019: Sh. 250,090,000) million which is treated as capital grants. The funds continue to be carried in the statement of financial position as capital grants from Government until such time that an alternative way of reorganising share capital is agreed upon between the existing shareholders and Heywood Shipping Company Limited.

24 DEFERRED INCOME LIABILITY

The deferred income is recognition of donation of two motor vehicles by a sister State Corporation valued at Sh. 5,200,000. The motor vehicles have been depreciated in line with the Company depreciation policy.

25 TRADE AND OTHER PAYABLES

	2020 Kshs	2019 Kshs
Trade payables	26,757,035	26,843,589
Accruals and other payables	14,621,971	18,646,635
	41,379,006	45,490,224

Included in the trade payables balance are amounts totalling Sh. 5,723,051 (2019 – Sh 5,496,106) due to container leasing companies, most of whom stopped sending invoices for container lease charges and monthly statements to the company several years back. The liabilities carried in trade payables in respect of amounts due to these suppliers are based on balances outstanding when statements were last received from these suppliers [also see note 27 (iii)]. Based on compromise arrangements that are being negotiated with major container leasing companies, a number of which have been successful, the directors believe that no further liabilities have accrued since the determination of these balances.

26 RELATED PARTY BALANCE AND TRANSACTIONS

(a) Kenya Ports Authority

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

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

(b) Other related parties include:

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

XVIII NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. RELATED PARTY BALANCE AND TRANSACTIONS (Continued)

Transactions with related parties

	2020	2019
	Kshs	Kshs
(a) Grants from National Government	71,000,000	44,590,000
Total	**71,000,000**	**44,590,000**
(b) Key Management Compensation		
Directors' Emoluments (Honorarium & Telephone Allowances)	510,000	856,334
Compensation to CEO	5,704,053	5,749,546
Compensation to Key Management	5,480,002	5,254,147
Total	**11,694,055**	**11,860,027**

27 CONTINGENT LIABILITIES

(i) The company, in the normal course of business, holds containers leased from various companies. Should any container be lost or damaged, the company has the responsibility to compensate the owners. The directors do not anticipate any significant liabilities to accrue from these arrangements, apart from those liabilities already provided for in the financial statements (2019: Nil).

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

(iii) A claim from Textainer Equipment Limited for US$17,571 (Sh. 1,871,705) in respect of unpaid invoices included in their statement when last received, has not been provided for in the financial statements because the directors believe that the claim is not valid (2019: US$ 17,571 – Sh. 1,797,483)

(iv) A claim from P. N. Communications Limited for US$ 17,660 (Sh 1,881,185) in respect of advertisement services rendered has not been provided for, as, in opinion of the directors having regard to legal advice received, the claim is not valid (2019: US$ 17,660- Sh 1,806,588).

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

XVIII NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 NOTES TO THE STATEMENT OF CASH FLOWS

	2020 Kshs	2019 Kshs
Reconciliation of operating loss to cash used in operations:		
Loss for the year/period	(47,873,383)	(46,987,078)
Adjustments:		
Interest receivable recognized in the loss for the year/period	-	-
Depreciation on motor vehicles and equipment	1,470,344	98,509
Amortisation of intangible assets	31,551	31,551
Loss/(gain) on disposal of equipment	(435,450)	-
Deferred Income	(1,300,000)	-
Loss for the year/period before working capital changes	(48,106,938)	(46,857,018)
(Increase)/Decrease in trade and other receivables	(3,631,005)	(2,501,295)
(Increase)/Decrease in inventories	6,893	(34,732)
Increase/(Decrease) in trade and other payables	(4,111,218)	2,745,254
Net movement in related company balance	-	10,291
Net cash used in operations	(55,842,268)	(46,637,500)

29 FINANCIAL RISK MANAGEMENT

The company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The company's overall strategy remains unchanged from 2019.

Significant accounting policies

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

Financial risk management objectives

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

XVIII NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk management

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

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

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

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

The amount that best represents the company's maximum exposure to credit as at 30 June 2020 and 30 June 2019 is made up as follows:

2020

	Fully performing Sh	Past due Sh	Impaired Sh
Bank Balances	17,616,483	-	-
Trade receivables	2,685,567	-	35,839,219
	20,302,050	-	35,839,219

2019

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

Cash and cash equivalents are fully performing.

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

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

XVIII NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 FINANCIAL RISK MANAGEMENT (Continued)

(ii) Liquidity risk management

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

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

	Less than 1 month	Between 1-3 months	Over 3 months	Total
As at 30 June 2020	Sh	Sh	Sh	Sh
Trade payables	3,741,976	-	23,015,059	26,757,035
Due to related company	-	-	26,675,186	26,675,186
Total	**3,741,976**	-	**49,690,245**	**53,432,221**

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

(iii) Market risk

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

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

XVIII NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

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

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

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

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

	2020 Kshs	2019 Kshs
Assets		
Trade and other receivables		
US Dollars	2,386,941	2,301,384
Euros	207,794	207,794
Sterling Pounds	30,194	29,915
Swedish Krona (SK)	2,150	2,150
	2,627,079	2,541,243
Bank and cash balances		
US Dollars	7,503,487	1,697,853
Liabilities		
Trade and other payables		
US Dollars	14,029,283	14,765,836
Euros	837,345	817,249
Swedish Krona (SK)	21,142	20,386
	14,887,770	15,603,471

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

At 30 June 2020, if the Kenya Shilling had weakened/strengthened by 10% against the relevant foreign currencies with other variables held constant, the impact on the Company's Statement of Comprehensive Income for the year would have been higher/lower by Sh 0.48M (2019: 1.14M).

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

XVIII NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

(b) Interest rate risk

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

(c) Price risk

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

30 OPERATING LEASE RENTAL COMMITMENTS

	2020 Ksh	2019 Ksh
Payment made under operating leases during the year	2,803,800	2,803,800

31 INCORPORATION

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

32 EVENTS AFTER THE REPORTING PERIOD

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

33 CURRENCY

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

XIX. APPENDIX 1: PROJECTS IMPLEMENTED BY THE ENTITY

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

XX. APPENDIX 2: INTER-ENTITY TRANSFERS

	ENTITY NAME:	**KENYA NATIONAL SHIPPING LINE LTD**	
	FY 2019/2020		
a.	**Recurrent Grants –** *Transfers from the State Department of Transport*		
	Bank Statement Date	**Amount (KShs)**	**Financial Year**
	08-08-19	11,147,500.00	2019/2020
	31-10-19	6,602,500.00	2019/2020
	31-10-19	17,750,000.00	2019/2020
	07-02-20	17,750,000.00	2019/2020
	21-05-20	17,750,000.00	2019/2020
	Total	**71, 000,000.00**	

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

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

Name of the MDA Transferring the funds				**Where Recorded/ recognized**
	Date received as per bank statement	**Nature: Recurrent/Development/Others**	**Total Amount - KES**	**Capital Fund**
Ministry of Transport, Infrastructure, Housing & Urban Development - **State Department of Transport**	08-08-19, 31-10-19, 07-02-20, 21-05-20	Recurrent	71,000,000	71,000,000
Total			**71,000,000**	**71,000,000**